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AN ASSESSMENT OF THE RELATIONSHIP BETWEEN BOARD OF DIRECTORS' CHARACTERISTICS AND THE PERFORMANCE OF ZIMBABWE STOCK EXCHANGE LISTED BANKS

Sandada, Maxwell
University of Zimbabwe, Graduate School of Management, Zimbabwe
msandada@commerce.uz.ac.zw

Chitambara, Prosper
University of Zimbabwe, Graduate School of Management, Zimbabwe
pchitambara@admin.uz.ac.zw

Shamhuyenhanzva, Roy M.
Vaal University of Technology, South Africa
royshamhu@gmail.com

Abstract

The study sought to examine the relationship between the characteristics of the board of directors and the performance of banking institutions listed on the Zimbabwe Stock Exchange. A cross sectional survey was conducted with 190 board members, executive managers, functional managers and corporate governance experts who were identified through stratified and random sampling. The research results indicated a good level of compliance with good board characteristics and practices by ZSE listed banks. The study concluded that a significant and negative relationship existed between all the board characteristics and practices under study and business performance. Finally it was noted that board characteristics and practices generally cannot be used as a good predictor of business performance. Other factors are at play in influencing business performance of ZSE listed banks. The findings could assist corporate governance practitioners in understanding the importance of proper governance practices.

Keywords: Corporate governance, Zimbabwe Stock Exchange, business performance, board of directors, Zimbabwe

INTRODUCTION

In the past two decades, corporate Zimbabwe has been rocked by corporate scandals ranging from unethical behaviour, the abuse of power by dominant corporate officials, a rise in the number of reported fraud cases, highly questionable strategic decision making, corporate leadership decay, gross mismanagement of resources and a lack of executive accountability. This has been more pronounced in the financial sector, particularly within the banking sector, which has witnessed corporate governance turmoil dating back to 1998 with the collapse of several financial institutions. With the dawn of the new millennium, corporate failures and scandals were reported globally, in both developing and developed countries. While some analysts and economists have attributed these unfortunate incidents to corporate governance failures within these institutions, others think that these cases are a tip of the iceberg and are symptomatic of failures at the regulatory level (Adams and Mehran, 2003), share the same view. Corporate Governance is crucial in any economy's efforts to provide sustainable management principles. It has become increasingly important for the private and public sectors because lack of sound corporate governance principles can negatively affect the economic development of the country. The global financial crisis and corporate scandals have placed the need for countries to put in place good corporate governance practices that enhance economic development. Thus, several countries, global institutions and institutional investor organizations have come up with "Codes of Best Practices" all in an attempt to improve corporate governance standards. Moreover, such codes are developed on the understanding that good corporate governance means higher returns for shareholders, more transparency and executive accountability.

Over the years, the Zimbabwean banking sector was apparently immune from corporate governance practices, as the Banking Act (Chapter 24:01) was the only operational law governing bank operations. With the advent of The Economic Structural Adjustment Program (ESAP) and the accompanying financial market liberalization of the early 1990s local banks were granted banking licenses as existing entry barriers in the sector were removed. In 2004 monetary authorities uncovered unethical underhand dealings by domestic banks which threatened to destabilize the whole banking sector. This prompted the Reserve Bank of Zimbabwe (RBZ) to act. Two guidelines on corporate governance, Corporate Governance guidelines and Minimum Internal Audit Standards in Banking Institutions were issued. These represented minimum standards that banks were expected to abide by and included the selection and proportion of executive and non-executive directors subject to approval by monetary authorities. In addition a new department – the Corporate Governance and

Compliance Unit - tasked with ensuring sound corporate governance practices among banks was set up by the RBZ.

In light of the increased emphasis on good corporate governance practices, the Institute of Directors in Zimbabwe have made concerted efforts to try and advocate for sound governance by promoting compliance with the United Kingdom (UK)'s Cadbury Report of 1992 and the Kings Reports of South Africa. However, with the realization that Zimbabwe needs its own code taking into account the country's peculiarities, in 2009, the Institute of Directors in Zimbabwe in partnership with the Zimbabwe Leadership Forum and the Standards Association of Zimbabwe undertook to promote development of a National Code on Corporate Governance that is almost complete. Given these mechanisms to enforce proper corporate governance practices in Zimbabwe, little is currently known on whether such corporate governance practices can improve the performance of firms. Moreover most of the research has been done in developed countries which have their own peculiarities different from developing nations like Zimbabwe (Lawrence and Marcus, 2006). Thus an investigation of corporate governance and firm performance in Zimbabwe is necessary due to the vast differences in the country's social, cultural and economic factors as compared to other countries. It is against this identified research gap that this study sought to contribute to the literature on corporate governance by investigating the relationship between corporate governance and firm performance from a Zimbabwean perspective, particularly within the banking institutions registered on the Zimbabwe Stock Exchange (ZSE). The sub-objectives were formulated as follows:

1. To determine the nature and level of compliance with corporate governance best board practices by ZSE listed banks.
2. To examine the direction and strength of relationship between the ZSE banks' corporate governance board practices and business performance

This study contributes to the literature on corporate performance by developing and testing a conceptual framework that shows how corporate governance (board composition and diversity, board size and meeting attendance, CEO status and board committees influence bank performance. The study would also provide some practical insights to banking institutions and other sectors on how they can enhance performance in their respective organizations. The rest of the article is presented as follows: a review of literature and a conceptual framework as well as the hypotheses development are presented. Thereafter, the research methodology, the results and the discussion of results are provided. The discussion on the managerial implications, limitations and avenues for future research studies, are to form the last sections of the study.

LITERATURE REVIEW

Corporate Governance

In the abundant literature, no single definition could be established for corporate governance, as the subject can be viewed from various angles, with researchers, practitioners and academics either broadly or narrowly defining it. Oman (2001) for example explains that the term corporate governance can refer to both private and public institutions and includes the laws, regulations and practices that dictate the interaction between managers and shareholders. La Porta, Silanes and Shliefer (2002) describe corporate governance as a set of ways through which shareholders safeguard their investment from misuse by managers.

Globally, the main focus of all these corporate governance frameworks revolves around the duties and responsibilities of a company's board of directors in successfully leading the company and their relationship with the company's shareholders and other stakeholder groups (Pass, 2004). This is so because the primary responsibility for ensuring good corporate governance within the private corporate sector resides squarely and solely with the board of directors and top management of the corporation (Inyang, 2009). According to the Cadbury Report (1992), the structure of the board of directors is considered an important corporate governance mechanism, which would result in improved performance. Accordingly, the main thrust of this study is on the impact of the board structure on corporate governance. Precisely, the study will focus on the various board of directors' characteristics and practices and investigate their impact on business performance. Board characteristics were grouped into four categories, namely board composition and diversity; board size, meetings frequency and board members' attendance at board meetings; board committees; and CEO duality and succession planning.

An optimal board size is crucial to business performance. The benefits of having a large board of directors include increased monitoring of a firm's activities. However this is often outweighed by the challenges of poor communication and decision making of a larger group of directors (Brickley, Coles and Jarrell, 2007). A strong possibility exists that a large board will not be as effective as a smaller board (Hermalin and Weisbach, 2003). 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. A firm's board of directors is responsible for carrying out critical roles such as advising, supervising and disciplining management to ensure that management's actions are in tandem with the interests of shareholders (Ntim, 2009). According to Adams and Ferriera (2012) the importance of board meetings lies in the fact that they are a platform where directors obtain information and partake in decision making the quality of which has an impact on the performance of an organization. Brown and Caylor (2006) emphasise the attendance at board meetings as an important corporate governance measure positively related to corporate performance.

Board diversity can be defined as the differences in characteristics that exist in the board's composition (Campbell and Mingiez-Vera, 2007). A number of attributes can be used as proxies for board diversity and the most common are gender (Carter, Simkins and Simpson, 2003), race (Oxelheim and Randoy, 2003), age (Richard, Barnett, Dwyer and Chadwick, 2004) and professional background (Kilduff, Angelmar and Mehra, 2000).

Boards of Directors consist of both executive and non-executive directors. Shah, Butt and Saeed (2011) say executive directors can be thought of as dependent directors while non-executive directors can be referred to as independent directors. Independent directors have no ties to the firm in any way other than in their position as board members. Leblanc (2004) refers to independent directors as not being executives of a company, nor shareholders, or blood relatives of top management. Their main contribution lies in unbiased monitoring of top management (Fernandes and Fransisco, 2008). Companies constitute a number of sub committees that work as assistants to the main board of directors. In order to ensure the independence of these sub committees, they should consist solely of non-executive directors (Bizjark and Anderson, 2000).

Business Performance

A wide variety of definitions of business performance have been proposed in literature (Barney 2002). Matolcsy and Wright (2011) explain that various researchers have used various measures as proxies for business performance while Orlitzky, Schmidt and Rynes (2003) maintain that both accounting and market definitions have been used to study relationships between corporate governance and firm performance. Stakeholder views regard firm performance as being the total wealth generated by the firm before distribution to the various stakeholders rather than the accounting profit allocated to the shareholders (Riahi-Belkaoui 2003). The performance of Zimbabwean banks listed on the Zimbabwe Stock Exchange is affected by their corporate governance practices because the banks' success or failure depends on the extent to which they are effectively and efficiently managed. According to Mobius (2002) good corporate governance practices enhance firm performance through better management and prudent allocation of firms' resources. Earnings resulting from the increased performance contribute positively to share prices. Therefore good corporate governance practices can increase the demand for shares as well as increase the price of shares of a company. For the purpose of this research, eight business performance measures were used. These consist of both financial and non-financial measures. These are Profit Margin, Return on Equity, Return on

Assets, Market Share, Customer Satisfaction, Employee Satisfaction, Banks' image and Product/Service quality.

RESEARCH METHODOLOGY

Design

A cross-sectional data methodology was used (Cheng, 2007). The study was restricted to banks listed on the ZSE during this period. Company secretaries, legal representatives and other knowledgeable personnel were the preferred respondents as they were assumed to have more information on the corporate governance board characteristics and practices of their banks. Board members and other stakeholders were also considered.

Population and Sampling Frame

The sampling frame consisted of the six banking institutions listed on the Zimbabwe Stock Exchange at the end of the year 2013. Thus the total population under study was 820, which is 64 board members, 41 executive managers, 695 middle level managers and 20 corporate governance experts. A sample size of 190 was selected. The stratified sampling was used in selecting the research respondents. The procedure that was followed is that first the respondents were divided into four strata namely Simple random sampling was then utilized to select the respondents to participate in the study. The rationale for coming up with these four strata is that the first three are critical levels board members, executive management, functional management and corporate governance experts. in influencing corporate governance decisions while corporate governance experts are a fountain of knowledge of corporate governance issues.

Data Collection

The survey strategy was used in this study as it allow the collection of a large amount of data from a given sample and the use of standardized questionnaires thereby ensuring easy analysis of responses (Saunders *et al.,* 2009). The data was obtained through the use of a structured questionnaire. Information on the banks' nature and level of compliance with the Reserve Bank of Zimbabwe's board guidelines was corroborated by confirming responses with the banks' annual reports. Data obtained for this study related board size, meetings frequency and attendance at board meetings; board composition and diversity; board committees and CEO status and succession planning. Business performance data used in this study were the Profit Margin, Return on Equity, Return on Assets, Market Share, Banks' image, Customer Satisfaction, Employee Satisfaction and Service Quality.

Correlation analysis was used to test the strength and significance of the relationship between board characteristics and business. In order to assess whether the board characteristics identified in the study could be used to predict business performance, linear multiple regression analysis was performed. This study followed Bhagat and Black (2002) and Coles, Daniel and Naveen (2008)'s approach that examine four board characteristics namely board size, meetings frequency and attendance at board meetings; board composition and diversity; CEO status and succession planning; and board committees. After adopting the economic model in equation 1 above to suit this study, the equation became:

$PERF = \beta_0 + \beta_1 BSIZE + \beta_2 BCOMPANDDIV + \beta_3 CEO + \beta_4 BODCOM + e_{it}$

Where: Perf stands for performance, BSIZE stands for Board Size, meetings frequency and attendance at board meetings, BCOMPANDDIV represents Board Composition and Diversity, CEO implies the Chief Executive Status and succession planning, BODCOM represents Board Committees and lastly e_{it} is the error term (assumed to have zero mean and independent across time period).

FINDINGS & DISCUSSION

190 questionnaires were sent out and 121 of them were completed and returned. This constitutes a 64% response rate, a figure generally in line with rates of at least 50% recommended by Bryman and Bell (2007). Table 1 summarises respondents' demographic profile.

Table 1: Sample Demographics

Gender	**Frequency**	**Percentage (%)**
Male	71	58.7
Female	50	38.8
Total	**121**	**100.0**
Age (Years)	**Frequency**	**Percentage (%)**
Less than 25	3	2.4
26-35 years	27	22.3
36-45 years	34	28.1
46-55 years	21	17.4
56-65 years	23	19.1
Over 65 years	13	10.7
Total	**121**	**100.0**
Qualification	**Frequency**	**Percentage (%)**
Degree	54	44.6
Professional Qualification	32	26.4
Master's Degree	23	19.1
PHD	12	9.9
Total	**121**	**100.0**

Position	Frequency	Percentage (%)
Board Member	18	14.8
Senior Management	44	36.4
Functional Management	52	43.0
Governance Experts	7	5.8
Total	**121**	**100.0**
Years of Experience	**Frequency**	**Percent**
Less than 1 year	2	1.7
1 to 5 years	35	28.9
6 to 10 years	71	58.7
11 to 15 years	7	5.8
+15 years	6	4.9
Total	**121**	**100.0**

As evident in Table 1, the sample population was well represented and it included people occupying managerial positions at corporate level, who are knowledgeable in about corporate governance practices.

Reliability and Validity of the Questionnaire

To ensure complete validity and reliability of the questionnaire a pilot study was done. Furthermore, during the questionnaire development, it was reviewed by two academics who are experts in the field. The pretesting of the questionnaire helped in making sure that the questions were clear for respondents to easily understand. In addition to pretesting by academics the input of potential respondents was incorporated in changes that were made to the original questionnaire.

Moreover, the questionnaire was subjected to internal reliability testing. As evident in Table 2, the Cronbach's alpha coefficients show a good level of internal reliability, which is within the accepted and recommended range of 0.7.

Table 2: Questionnaire Cronbach's Alpha

Section	Number of items	Cronbach Alpha
Section B: Board Composition and Diversity	11	0.724
Section C: Board size, meetings frequency and attendance at Board meetings	10	0.713
Section D: CEO status and succession planning	3	0.765
Section E: Board Committees	19	0.743
Section F: Board characteristics and Business performance	8	0.891
Whole Questionnaire	**51**	**0.707**

The scores for the sections on board composition and diversity were 0.724; board size, meetings frequency and attendance at board meetings (0.713); CEO status and succession planning (0.765); and board committees (0.743). The whole questionnaire had an overall Cronbach's alpha coefficient of 0.707, which again is a good level of internal reliability.

Relationship between Board Characteristics and Business Performance Measures

The relationship between the various board characteristics used in this study and business performance was investigated through the use of the Pearson's correlation coefficient. Table 3 shows the correlation coefficients between the dependent variable represented by business performance and the independent variables, represented by the four categories of board characteristics.

Table 3: Board Characteristics and Business Performance

Factors	**1**	**2**	**3**	**4**	**5**
Board composition and diversity **1**	1				
Board size, meetings frequency and attendance at meetings **2**	.273**	1			
CEO status and succession planning **3**	.180**	.077**	1		
Board committees **4**	.472**	.369**	.165	1	
Business performance **5**	-.221**	.-172	-160	-.167**	1

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

According to the results in Table 3, it was observed that relationships between Board composition and diversity business performance (r= -.221), Board size, meetings frequency and attendance at meetings and business performance (r= -172, CEO status and succession planning and business performance (r= -.160), Board committees and business performance (r= -.167) are negative at p<0.01 demonstrating that all the four predictors are negatively correlated to business performance. These findings support conclusions by Carter and Lorsch (2004) who argued for a negative relationship between number of non-executive directors and business performance. This is because of non-executive directors' preoccupation with other commitments outside of the firm. These finding however contradict the agency theory that suggests that the presence of non-executive directors results in improved business performance. The findings of this research are also in contrast to studies done by Omar (2003), Krivogorsky (2006), Lefort and Urzua (2008), and Limpaphayom and Connelly (2006) that found a positive relationship between the proportion of non-executive directors and business performance. In terms of board diversity, the findings contradict the findings of a study by Oxelheim and Randoy, (2003) which found a positive relationship between board racial diversity and business performance.

However, the results are in line with the study by Bohren and Strom (2005) which found a negative relationship between the two variables. On the aspect of board size, board meetings frequency and board members' attendance at meetings, the results research findings by Yokishawa and Phan (2004); and also Mak and Kusnadi (2005). The study found a significant negative relationship between the number of board meetings held during the year and business performance. The results were however in contrast to studies by Bricks and Chidambaran (2010); and Mangena and Tauringana (2008) who found a positive relationship between board meetings frequency and business performance. In terms of CEO status and succession planning, the research finding are in contrast with results obtained by studies by Jackling and Johl (2009) and Lin, Y. (2005) who concluded that separation of Chairman and CEO roles results in improved business performance.

Board Characteristics as a Predictor of Business Performance

For the purpose of assessing whether board characteristics identified in this study can be used as a predictor of business performance, a linear multiple regression test was used. The results of the regression test are shown in Table 4.

Table 4: Board characteristics and Business Performance

Independent Variables	**Std. Error**	**Beta**	**t-value**	**Sig.**
(Constant)	12.270		3.980	.000
Board composition and diversity	.342	-.148	-1.496	.138
Board size, meetings, frequency and attendance at meetings	.462	-.150	-.480	.142
CEO status and succession planning	.589	-.095	-.983	.328
Board committees	.206	-.002	-.023	.981

R=0.258; R Square = 0.066; Adjusted R Square = 0.29; F = 1.795. * significant at $p<0.05$

The Adjusted r square value of 0.029 implies that the board characteristics identified in this study explain 2.9% of the variations in the performance of ZSE listed banks. The other 97.1% of the variations in performance of ZSE listed banks is explained by other factors. Table 5 shows the Analysis of Variance performed on the data. The result of the test is that board characteristics are weak predictors of business performance of ZSE listed banks (F (4) =1.795, P=0.136). The p-value (0.136) is greater than 0.01, 0.1 and 0.5 meaning that at the 99%, 95% and 90% confidence levels board characteristics identified in this study are not significant in explaining business performance of ZSE listed banks. The findings also mean all the attributes of corporate governance practices have negative, though insignificant implications on bank's performance (because the p-values are all greater than 0.05).

THEORETICAL AND MANAGERIAL IMPLICATIONS

Board Composition and Diversity

Contrary to the view that non-executive directors provide unbiased monitoring of top management and therefore tow management's line towards improved business performance, the research found that the proportion of non-executive directors is significantly and negatively related to business performance. This could be due to the fact that such directors are only available on a part-time basis and can be busy with other commitments outside of the bank. As such policy makers must put in place such regulations that minimize as much as possible, the proportion of non-executive directors in banks' boards.

While some arguments support the notion that board gender diversity is likely to bring advantages to the firm leading to improved performance, empirical results of this study show that the opposite is true. This may be due to the fact that gender diversity in boards can lead to conflict of interests and slow decision making and different perceptions towards risk. Ultimately this has a negative impact on business performance. Banks must therefore strive to have less gender diversity in their boards if the boards are to function towards improving business performance. The study found that board racial diversity may result in more cross-cultural communication problems as well as interpersonal conflicts that can negatively affect the board's effectiveness and therefore performance of the banks. Therefore banks need less racial diversity in their boards to minimize such problems. The negative relationship between board members age and business performance calls for the need for banks to have more young members on their boards. Although older board members can be expected to bring in experience, younger members have the energy to steer the banks and can also be swift in terms of decision making which can be beneficial to the banks. Young board members are also likely to less conservative and are more motivated to process new ideas that can positively enhance business performance

Board Size, Meetings Frequency and Board Members' Attendance at Meetings

The research seems to support the argument that as the size of the board increases, communication challenges may increase. Also conflicts of interest may arise thereby resulting in a decline in business performance. Accordingly banks should aim towards having small boards as this may help reduce risks of large boards identified above. The negative relationship between board meetings frequency and business performance that was observed may be due to the fact that more board meetings are a sign of less efficient board members which affects board effectiveness. The recommendation in this regard is that banks should minimize the number of board meetings held during the year as much as possible. In similar light, the negative relationship between board members' attendance at board meetings and business performance can be explained by the fact that more attendances can be expected to results in more costs in terms of for example board sitting fees. Ultimately this would have a negative impact on business performance. In any case greater attendance at board meetings can only result in free-riding where directors add very little in terms of value in the board meetings. Therefore board members' attendance at board meetings is one area that banks need to monitor with a view to limiting such free riders.

CEO Status and Succession Planning

The study found a significant negative relationship between the separation of CEO and Chairman Roles together with succession planning and business performance. This means banks with CEO who also acts as the Chairman would be expected to perform better than banks where the roles are occupied by different persons. This may be explained by the fact that such banks would benefit from quick decision making absent in banks with a dual role structure whereby the CEO's decisions would be subjected to the Chairman's scrutiny before being approved. Quick decision making can benefit the banks since they will be able to take advantage of opportunities that may arise. While in all of the Zimbabwean banks, CEO and Chairman roles were occupied by different persons, there is need for policy makers to and banks themselves to explore the possibility of having these positions occupied by the same person, as is the situation in the USA.

Board Committees

The existence of effective board committees was found to be negatively related to business performance. One possible reason for such scenario could be the cost implications of having such committees, for example committees' meeting and free riding costs which may negatively affect performance. Banks should strive to have less of such board committees. Board committee presence in banks must be at the barest minimum in line with relevant banking laws and regulations. Banking sector regulators must have this in mind when they craft relevant policies on the number and functioning of various board committees.

Effect of Corporate Governance Board Characteristics and Practices on Business Performance

The study found that variations in corporate governance board characteristics and practices contributed weakly to variations in business performance. The identified board characteristics are therefore weak predictors of business performance of ZSE listed banks. This implies that there could be other factors that influence business performance more than these board characteristics. Bank executives therefore need to put greater emphasis, not merely on these board aspects but also on other aspects that enhance business performance. Such aspects may include actions of competitors and the quality of the banks' products / service offerings.

RESEARCH LIMITATIONS AND AVENUES FOR FUTURE STUDIES

Just like all studies, this study had its own limitations. Firstly, the quantitative approach, and its associated use of the structured questionnaires as the data collection instrument served to limit the depth of information provided by respondents. This is in contrast to a qualitative methodology where interviews may result in respondents providing insights a researcher may not have anticipated. The researcher attempted to mitigate this by incorporating as much information on board characteristics and practices as possible to ensure all potential views were captured. The size of the sample used may also be a shortcoming on the study. Maximum effort was however made to ensure that the as many respondents as possible were reached. By relying on views of respondents, which may be subjective, a possibility existed that these views may not be appropriately reflective of the total population under study. In order to mitigate this, however, only respondents with relevant knowledge of the field were considered. This was to ensure that their views were reflective of the overall board characteristics and practices landscape of their respective banks. Finally, the research was done under the constraints of limited time. To mitigate this problem, the questionnaires were send early in the research to minimize the possibility of non-response due to inadequate time given to respondents to complete the questionnaires.

The study focused on corporate governance board characteristics and practices and their relationship to business performance of ZSE listed banks. In future studies focusing on other sectors in general and State Owned Enterprises in particular should be beneficial. This is especially more so given the purported dearth of corporate governance practices in organizations like the Premier Service Medical Aid Society (PSMAS) and the Zimbabwe Newspapers (ZIMPAPERS) group. The study also focused on a one year period. There is scope to do studies spanning for a number of years. This would then enable the examination of the relationship's consistency over a longer period. The study also adopted the quantitative approach. Future studies can be done using the qualitative approach, with its potential benefit of enabling more insightful data to be collected. There is also need to include other board characteristics like directors remuneration and directors' shareholding in future studies.

CONCLUSION

The research sought to contribute to existing literature on corporate governance and business performance in the banking sectors of developing countries like Zimbabwe. The research results indicated a good level of compliance with good board characteristics and practices by ZSE listed banks. The results also indicated that there were no significant differences in perceptions on corporate governance – business performance issues among the various respondents' categories. The study concluded that a significant and negative relationship existed between all the board characteristics and practices under study and business performance. Finally it was noted that board characteristics and practices generally cannot be used as a good predictor of business performance. Other factors are at play in influencing business performance of ZSE listed banks.

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