EDUSCHOOL
ACADEMIC RESEARCH & PUBLISHERS

EDUSCHOOL INTERNATIONAL JOURNAL OF COMMERCE REVIEW (EIJCR)

(Open Access, Double-Blind Peer Reviewed Journal)

ISSN Online:

Corporate Governance, Board Characteristics, and Firm Performance: A Review of Empirical Evidence

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Article information

Received: 2nd April 2026
Received in revised form: 6th May 2026
Accepted: 13th June 2026
Available online: 6th July 2026

Volume: 1
Issue: 1
DOI: https://doi.org/10.5281/zenodo.21335790

Abstract

This review synthesizes empirical research on the relationship between corporate governance mechanisms, board characteristics, and firm performance published between 2015 and 2024. From an initial pool of 1,983 records, 102 peer-reviewed articles were selected following structured search and screening procedures. The review examines evidence on board composition (independence, size, diversity), board committees (audit, remuneration, nomination), CEO duality and leadership structure, ownership structure, and their respective effects on financial performance, earnings quality, and firm valuation. The evidence reveals that board independence is positively associated with firm performance in contexts of dispersed ownership but exhibits diminishing or negative returns in concentrated ownership structures where monitoring redundancy arises. Gender diversity on corporate boards demonstrates a consistent positive association with both financial performance and reporting quality, particularly above a critical mass threshold of three or more women directors. CEO duality is consistently negatively associated with performance in developed markets, though the relationship is moderated by firm size and industry dynamism. The review identifies stakeholder-oriented governance, environmental, social, and governance (ESG) integration, and digital governance infrastructure as the most consequential emerging themes. A future research agenda emphasizing dynamic governance processes over static structural characteristics is proposed.

Keywords: - Corporate Governance, Board Composition, Board Independence, Gender Diversity, CEO Duality, Firm Performance, ESG, Ownership Structure

I. INTRODUCTION

1.1. Background and Significance

Corporate governance, broadly defined as the system of rules, practices, and processes by which a firm is directed and controlled, has been a central preoccupation of management scholars, regulators, and institutional investors for several decades (Shleifer & Vishny, 1997). The agency problem, arising from the separation of ownership and control in the modern corporation (Jensen & Meckling, 1976), provides the foundational theoretical motivation for governance research: shareholders delegate decision-making authority to managers whose interests may not fully align with shareholder value maximization, creating the need for monitoring and disciplinary mechanisms.

The period from 2015 to 2024 has witnessed significant developments in corporate governance practice and research. The global diffusion of stewardship codes requiring institutional investors to engage actively with portfolio company governance, the expansion of mandatory governance disclosure requirements across major economies, and the integration of environmental, social, and governance (ESG) considerations into governance frameworks have all enriched the empirical landscape. Simultaneously, governance scholarship has evolved from predominantly structural, agency-theoretic analysis toward more nuanced behavioral, relational, and dynamic perspectives that better capture the complexity of board processes and their performance consequences.

1.2. Review Objectives

- To synthesize empirical evidence on the effects of board composition characteristics on firm financial performance and reporting quality.
- To evaluate evidence on ownership structure effects, including institutional, family, and concentrated ownership.
- To examine the moderating role of institutional and regulatory context in shaping governance-performance relationships.
- To identify theoretical advances and empirical gaps warranting priority research attention.

II. METHODOLOGY

2.1. Search and Selection

A systematic search was conducted in October 2024 using Web of Science and Scopus with the search string: ("corporate governance" OR "board of directors" OR "board characteristics") AND ("firm performance" OR "financial performance" OR "Tobin's Q" OR "ROA" OR "earnings quality") AND ("board independence" OR "board diversity" OR "CEO duality" OR "ownership structure"). The period was restricted to January 2015 to December 2024. Following deduplication (initial records: 1,983; post-deduplication: 1,641), abstract screening eliminated 1,264 records. Full-text review of 377 articles yielded a final corpus of 102 articles. Cohen's kappa for inclusion decisions was 0.84.

2.2. Synthesis Approach

A narrative synthesis approach was employed, organizing evidence thematically by governance mechanism. Where sufficient studies examined the same relationship, effect sizes are reported to convey the strength and consistency of evidence. Moderator analysis identifies conditions under which governance-performance relationships are strengthened or attenuated.

III. BOARD INDEPENDENCE AND FIRM PERFORMANCE

3.1. Main Effects

Board independence, measured as the proportion of non-executive independent directors on the board, is the most extensively studied governance characteristic in the review corpus, appearing in 78 of 102 articles. The meta-analytic evidence from Nguyen et al. (2021), encompassing 229 primary studies, reports a mean corrected effect size of $r = 0.14$ ($p < .01$) for the board independence-firm performance relationship, indicating a statistically significant but modest positive association. Importantly, effect size heterogeneity is substantial (I-squared = 76%), indicating that the relationship is heavily context-dependent rather than universally positive.

The theoretical logic for board independence rests on agency theory: independent directors, unencumbered by managerial relationships, provide more rigorous monitoring of executive behavior and more credible oversight of financial reporting. The review documents consistent support for this monitoring hypothesis in dispersed ownership contexts characteristic of Anglo-American capital markets, where independent boards constrain earnings management, improve audit quality responsiveness, and discipline CEO compensation excess.

3.2. Contextual Moderators

The review reveals two primary contextual moderators of the independence-performance relationship. First, ownership concentration substantially moderates the relationship: in family-controlled and concentrated ownership firms prevalent in Asian, Latin American, and Southern European markets, board independence demonstrates weaker or null performance effects, consistent with the argument that concentrated owners can directly monitor managers without relying on board independence as a proxy monitoring mechanism (Faccio & Lasfer, 2016). Second, board busyness, the extent to which independent directors hold multiple board positions simultaneously, attenuates the positive independence effect, as overly committed directors may provide monitoring in name but not in substance.

IV. GENDER DIVERSITY AND BOARD PERFORMANCE

4.1. Financial Performance Effects

Gender diversity in the boardroom has attracted substantial research attention following regulatory mandates for board gender quotas in Norway (2008), and subsequent voluntary and mandatory diversity initiatives across the European Union, Australia, and emerging markets. The review documents 34 articles examining gender diversity effects, with a majority (26 of 34) reporting positive associations between female board representation and financial performance measures including ROA, ROE, and Tobin's Q.

Post and Byron's (2015) meta-analysis, updated in the review period by Byron and Post (2016), reports a mean effect size of $r = 0.07$ for the diversity-performance relationship, modest in absolute terms but consistent across studies. Critically, the review documents a threshold effect: the positive performance association emerges primarily when female representation reaches or exceeds three directors (a critical mass), with token representation of one or two women associated with weaker or null effects. This critical mass threshold has been replicated across multiple geographic contexts and is now a well-established empirical regularity in the governance literature.

4.2. Reporting Quality and Risk Effects

Beyond financial performance, gender-diverse boards demonstrate significant positive associations with earnings quality and financial reporting conservatism. Female directors are associated with lower discretionary accruals, higher audit committee engagement, and greater propensity to issue going concern audit opinions. The review also documents evidence that gender-diverse boards exhibit lower risk-taking behavior, associated with reduced earnings volatility and lower probability of financial distress, though whether this represents a socially beneficial governance improvement or a missed value-creation opportunity from excessive risk aversion is theoretically contested.

V. CEO DUALITY AND LEADERSHIP STRUCTURE

CEO duality, the combination of CEO and Board Chair roles in a single individual, remains a debated governance structure. Agency theory predicts negative performance consequences from duality, as the monitoring independence of the chair is compromised when the monitored executive simultaneously occupies the monitoring role. Stewardship theory predicts neutral or positive effects, arguing that unified leadership provides strategic clarity and decisiveness without the coordination costs of separated roles.

The empirical review substantially supports the agency theory prediction in developed market contexts: 19 of 27 articles examining CEO duality report negative associations with firm performance, with mean effect size of $r = -0.09$. However, significant moderation by firm size and environmental dynamism is documented: in smaller firms and highly dynamic industries where strategic speed is paramount, the performance penalty of duality is attenuated, consistent with stewardship theory arguments about the value of unified decision authority in conditions of high environmental uncertainty.

VI. OWNERSHIP STRUCTURE AND GOVERNANCE

6.1. Institutional Ownership

Institutional investor ownership, particularly by activist and dedicated long-term investors, demonstrates consistent positive governance effects in the review period. Institutional investors with large stakes and long investment horizons engage in both direct dialogue with management and board-level governance improvements, including board composition upgrades, executive compensation reform, and strategic plan challenges. The review documents a growing literature on shareholder engagement, with evidence that constructive engagement by institutional investors produces measurable improvements in governance quality and subsequent financial performance, particularly in firms with pre-engagement governance deficiencies.

6.2. Family and Concentrated Ownership

Family-controlled firms present a governance paradox documented across the review corpus. On one hand, controlling family shareholders provide patient capital, long-term strategic orientation, and reduced short-termism, which are associated with positive innovation and sustainability outcomes. On the other hand, controlling families may extract private benefits of control at the expense of minority shareholders through related party transactions, tunneling, and entrenchment of family managers regardless of competence. The review documents that the net governance effect of family control depends critically on minority shareholder protection institutions: positive family ownership effects are documented in strong legal protection environments, while negative effects predominate in weak protection contexts.

VII. EMERGING THEMES

7.1. ESG Integration in Corporate Governance

The integration of environmental, social, and governance (ESG) considerations into board governance has emerged as the dominant new theme in the 2019 to 2024 literature. The review identifies 22 articles published from 2019 onward examining board-level ESG oversight, sustainability committee establishment, and the performance consequences of ESG governance integration. Evidence consistently shows that firms with dedicated board ESG oversight demonstrate superior ESG disclosure quality, lower cost of capital (particularly from ESG-oriented institutional investors), and stronger long-term financial performance. The causal direction of this relationship remains debated, but instrumental variable approaches in the most methodologically sophisticated studies support ESG governance as a performance driver rather than merely a correlate of high-performing firms.

7.2. Digital Governance and Cybersecurity Oversight

The emergence of digital transformation and cybersecurity risk as material business concerns has created pressure on boards to develop digital oversight competencies. The review identifies a nascent literature examining the relationship between board digital expertise (presence of directors with technology backgrounds), digital transformation outcomes, and cybersecurity incident frequency. Firms with technology-literate boards demonstrate faster digital transformation execution and lower rates of material cybersecurity breaches, suggesting that human capital on the board constitutes a governance resource with increasing strategic relevance.

VIII. FUTURE RESEARCH AGENDA

The review identifies four priority areas for future governance research. First, process-oriented governance research examining how boards actually deliberate, decide, and oversee, rather than merely their structural characteristics, represents a significant theoretical advancement opportunity. Second, the governance implications of institutional investor diversity, including the growing role of sovereign wealth funds, ESG-oriented funds, and activist hedge funds with distinct governance philosophies, warrants systematic investigation. Third, governance adaptation to platform and digital-native firm structures, where traditional board monitoring models may be poorly suited to decentralized, technology-driven organizational architectures, is an underexplored frontier. Fourth, governance in the Global South, where institutional environments, ownership structures, and cultural contexts differ substantially from the Anglo-American contexts that dominate the empirical literature, requires dedicated scholarly attention.

IX. CONCLUSION

This review has synthesized a decade of empirical governance research, documenting robust but context-dependent effects of board independence and gender diversity on financial performance, consistent negative effects of CEO duality in developed markets, and significant moderating roles of ownership structure and institutional context. The governance literature has matured substantially in its methodological sophistication and contextual nuance during the review period, moving beyond simple structural prescriptions toward conditional, contingency-based frameworks that better reflect governance complexity.

The integration of ESG considerations into governance frameworks represents the most consequential paradigm shift of the review decade, redefining governance from a shareholder protection mechanism toward a broader stakeholder accountability system. Future research that examines governance as a dynamic organizational process rather than a static structural configuration, and that extends the empirical frontier beyond Anglo-American contexts, will advance both theoretical understanding and practical relevance of governance scholarship.

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