

# Board Dynamics and Corporate Performance: Review of Literature, and Empirical Challenges

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## Abstract

This paper is an attempt to conduct a comprehensive survey of relevant literatures in respect of the relationship between board dynamics and firm performance. The investigation reveals that equivocal findings still dominates most of the previous studies on key board dynamics such as Size, composition, CEO Duality and Diversity amongst others. While the need to assess the connection between board characteristics and corporate performance would for a longtime remained a legitimate and interesting area of investigation, the paper recommend that the researchers avoid mistakes of the past. These include over reliance on singular theory, the use of lone performance measure and most importantly the assumption of express relationship between the two variables. The use of more purposeful process based approach that identifies the cause effect of the relationship would be of tremendous benefit to this vital field of study.

**Keywords:** Corporate Governance, Board dynamics, Firm performance

## 1. Introduction

Corporate governance as a concept represents “*the system by which companies are directed and controlled*” (Cadbury Report, 1992). In the present day corporate world, corporate governance has assumed a significant position in driving the firm value creation and improved financial performance especially in the face of consistent corporate scandals that have continued to rock corporate entities globally (Korac-Kakabadse et al., 2001; Shivdasani and Zenner, 2002; Rose, 2005). Recently we had witnessed the collapse of notable corporate entities like Enron, Lehman Brothers, WorldCom, Qwest and Tyco, and Rank Xerox amongst others. While there are a lot of lessons learnt from the incident, one can deduced that the quality of a firm governance mechanism determines its ability to compete favorably especially in a turbulent environmental circumstances when others are struggling to survive. The modern academic literature on corporate governance arose from the influential work of Berle and Means (1932) where they argued that, in practice, managers of firms pursued their own interest rather than the interest of shareholders. Berle and Means highlighted the need to put in place a set of effective mechanisms to help in resolving the conflict of interests between firm owners and managers. Therefore, corporate governance as a concept might be new but the issues it addresses are not (Ayuso and Argandoña, 2007). Consequently, and in response to these corporate scandals countries and agencies around the world began to introduce a series of legislations and guidelines otherwise known as the *codes of best practices*. These guidelines are a set of norms that regulates the behavior and structure of the corporate board in exercising their monitoring and supervisory roles (Morth, 2004; and Alvaro, 2002). Some of the existing codes across the globe include amongst others; UK Cadbury Code, (1992); South Africa King Report (1994), OECD Principles of Corporate Governance (1999); Russian CG Code, (2002); Nigeria SEC Codes (2009) and US Sarbanes-Oxley Act (2002). Though, these codes are issued in different parts of the world with their specific share of peculiarities in terms of corporate culture and general corporate environment, they shared some common similarities especially on the need to align the interest of parties (Shareholders and Management). The codification of governance practice strives to mitigate the associated deficiencies in or lack of effective shareholders protections (Alvaro, 2002).

The remainder parts of this paper are organized as follows: Part 1 takes a brief look at the theories of corporate governance and their underlying philosophy in the face of disperse ownership and control. In part 2, we discussed the roles of corporate board and key board characteristics as it affect firm performance, while part 3 deals with

issues related to methodology of investigation and the challenges of equivocal findings that have dominated the field. In part 4, we concluded by discussing and recommending appropriate ways future research can make a difference in resolving the present impasse.

### *1.1 Corporate Governance Theories and Underlying Principles*

As corporate governance issues took centre stage in the management and operation of modern enterprise so is the schism of theoretical models (Kirkbride et al, 2004). However, the lack of consensus in the definition of corporate governance resulted in researchers from different background (Finance, Economics, Sociology, and Psychology) coming up with their respective theoretical views, all aimed towards aiding understanding of the complex nature of the concept. The most widely studied of these theories includes;

#### *1.1.1 Agency Theory*

Agency theory has undoubtedly dominated other theories as the most preferred approach to corporate governance studies (Johnson, 2008; Aguilera et al., 2008; Zahra and Pearce, 1983; Daily et al. 2003; O'Sullivan, 2000; Davis et al., 1997; Dwivedi and Jain, 2005). Agency relationship is defined as “*a contract under which one or more persons (the principal) engage another person (the agent) to perform some services on their behalf which involves delegating some decision-making authority to the agent*” (Jensen and Meckling, 1976). According to agency model, the separation of ownership and control creates an inherent conflict of interest between the shareholders (Principal) and the management (Agent) (Aguilera et al., 2008). Although managers are said to be rational, but cannot be trusted to remain faithful by always acting in the best interest of the principal since they are also presumed to be self-interested (Williamson, 1975; Padilla, 2002). Therefore, managers must be controlled to avoid “moral hazard” using some risk-bearing and monitoring mechanisms that checkmate their deviant behaviors (Jensen, 1983; Filatachev et al. 2007). In order to effectively address the agency problem, the theorists acknowledged the crucial role of board as an instrument of owners in subduing the opportunistic behavior of managers (Stiles and Taylor 2001). Agency theory advocated for a clear separation between decision management and control (Fama and Jensen, 1983). The need for greater representation of outside independent non-executive directors as well as dual leadership structure and larger board size that makes management manipulation difficult are all some of the internal mechanisms recommended to address the presumed conflict of interest (Dalton et al, 1998; Pearce and Zahra, 1992; Baysinger and Hoskisson, 1990; Petrovic, 2008; Agrawal and Knoeber, 1996; Bhagat and Black, 2002; Hesterly and Coles, 2000; Rechner and Dalton, 1991).

#### *1.1.2 Stewardship Theory*

The stewardship theory took an opposite view of management (Donaldson, 1991; Davis et al., 1997; Donaldson and Muth, 1998). While agency theory hypothesised that managers are self-interested, the stewardship theory advanced that indeed managers can be trustworthy and thus not enticed by the extrinsic value but rather intrinsically motivated by desire for accomplishment, acknowledgment, self-actualization, self fulfillment, power, and affiliation. The theory recommends unification of the position of CEO and board chair to reduce agency costs and promote unity of command doctrine. One of the most viable paths to achieving board effectiveness and performance variation is conditioned on degree of board dependency with greater executive directors' involvement. By privilege the executive directors are presumed to have perfect information about the workings of the firm and therefore more suitable to play monitoring and control role as against the outsiders who might not possess the requisite knowledge and expertise required to perform the task (Donaldson and Muth, 1998; Nicholson and Kiel 2007; Stiles, 2001; Helmer, 1996). The stewardship theory also stresses the need for smaller board size in line with organisational behaviourists/psychologists argument that small teams promote group cohesiveness and bonding that propel high performance (Donaldson and Muth, 1998). It should be noted here that, the board responsibility under the stewardship theory is more of strategic formulation rather than that of monitoring and control.

#### *1.1.3 Stakeholder Theory*

Recognising the fact that firms does not operate in an isolation but within an environment made of different interest groups aside the immediate owners, stakeholder theory expanded interested parties spectrum as it argued the need to take into consideration the interests of other constituents in corporate decision making since they are likely to affect or be affected by firms' strategic choices (Freeman, 1984; Gay, 2002; Boatright 1994; Turnbull, 2000; Asher et al., 2005). Under this theory, the purpose of firm shifts from pursuing shareholder value maximisation to that which encompasses other stakeholders' expectations (Kirkbride et al., 2004). Therefore, maintaining harmonious corporate relationship with each group is of high strategic importance to the firm and its ability to add value as well as the delivery of success in the marketplace (Kreitner, 2002). The interests of these stakeholders according to Donaldson and Preston (1995) are intrinsically bond. Firms through its administrators (i.e. board and management) thus have the sole responsibility of aligning these diverse interest groups by effectively analysing the nature of their perceived

interest disparities and the adoption of appropriate corporate strategies that help balance the act and improve performance (Freeman, 1984). In order to actualised board effectiveness and performance derive, the stakeholder theory advocated for large and well diversified corporate board size that accommodate and facilitate the alignment of the interest of each constituent especially those that create value to the firm (Zingales and Rajan, 1998; Clarkson, 1995; Evan and Freeman, 1993; John and Senbet, 1998).

#### 1.1.4 Resource Dependency Theory

The resource dependency theory appreciates the strategic importance of other stakeholders beside the immediate shareholders in guaranteeing firms' access to resource through affiliation with various constituencies. The role of board of directors under resource dependency model is that of "*Boundary –Spanners*" who use their individual external network of contacts to attract all kinds of indispensable resource the firm needs to operate competitively and advance superior performance (Daily et al., 2003; Tricker, 2009; Hillman et al., 2000; Zahra and Pearce, 1989). In line with the above, the resource dependency theorists presumed that an ideal board should consist of individuals with varieties of external linkages such as business experts, support specialists and community influential that brings within the firm's reach access to requisite resources (Johnson et al., 1996; Hillman et al., 2000). Williamson (1984) posited that apart from gaining access to the required resource, firms with appropriate network connection are also able to reduce the transaction cost associated with interaction in the external environment. Resources dependency hypothesis was based on the fact that board members serve not only as director in a single firm but may likely be board member in other complimentary firms and can influence decision in the favour of firm for which they are affiliated. Thus, resource dependency theorists assumed that a well diversified board with appropriate representation of outside independent members is likely to lead to improved corporate performance especially in the face of environmental volatility when the degree firm dependency escalates (Siciliano, 1996; Johnson et al., 1996; Donaldson and Muth, 1998; Nicholson and Kiel, 2007; Hillman et al., 2000).

## 2. Board Roles, Dynamics and Firm Performance

### 2.1 The Role of Board of Directors

Board is the "*heart*" of corporate governance where the outcome of a firm is often determined (Guerra et al., 2009; Yawson, 2006; Donaldson, 2003; Clarke, 2007; Fama and Jensen, 1983; Finkelstein and Hambrick, 1996; Adjaoud et al., 2007; Gillan, 2006). The central objective of corporate governance resides on the ability of board to monitor the management (Connelly and Limpaphayom, 2004). The corporate board is an internal governance mechanism designed to control self interested management from unscrupulous behaviours (Heracleous, 2001; Guan et al., 2007). In the face of separation of ownership and control, board is the only intermediate arm of the firm that interfaces and administers the relationship between the shareholders and the managers (Stiles and Taylor, 2001; John and Senbet, 1998). Recent inexorable corporate scandals around the world and the reforms that follows thereafter all focus on board as the antidote that would help address issues surrounding management un-bearing attitudes and promote best practices (Van den Berghe and Levrau, 2004). The fundamental task of board according to literature is to ensure that management in absence of owners discharges their obligation faithfully in the best interest of shareholders. As final corporate authority body when comes to decision-making, the role of board is therefore diverse taking into account the fact that it also bridge gaps that exists between these two extreme continuums.

However, the effectiveness of the board of directors as shareholders' monitoring mechanism can only be efficient if bounded with appropriate size, composition and leadership configuration. To this end, most code for best practices and corporate governance guidelines tend to focus critically on these board dynamics as the cornerstone to achieving the much needed board effectiveness.

### 2.2 Board Dynamics

There have being a strong presumption that the effective use of board as internal governance mechanism is crucial to improved firm performance and profitability (Bhagat and Black, 1999; Weisbach, 1988, Brickley et al., 1994; Johnson et al., 1996; Rosenstein and Wyatt, 1990; Zahra and Pearce, 1989). While talk they said is cheap, more than two decades of empirical investigation, is yet to justify the above assumption as ambiguous findings continue to dominate empirical studies on the relationship between corporate governance and firm performance. Some of the board dynamics reviewed here includes composition, size, CEO Duality and diversity.

#### 2.2.1 Board Composition

Board composition denotes the fraction of non executive directors on the board as compared to their executive counterparts. This is the proportion of inside directors who participate directly in the day to day management of the firm to outside directors who provide check and balances in ensuring that the shareholders interest are protected (O' Sullivan and Wong, 1998; Donaldson and Muth, 1998; Petrovic, 2008; Wan and Ong, 2005; Klien 2002). The board

independent that is, the extent to which board members are reliant on the CEO/Management is determined by its composition. From the empirical point, a board is said to be independent if made up of more non-executive directors that share no material connection such as family ties, financial relationship, employment, professional services, and interlocked directorship amongst others with the management (Ayuso and Argandoña, 2007; Shivdasani and Zenner, 2002). In the face of ownership and control dispersion, outside non-executive directors are more reliable and also effective in representing shareholders interest (Byrd and Hickman, 1992; Kaplan and Reishus, 1990; John and Senbet, 1998). Laing and Weir (1999) argued that non executive directors are much more likely to oppose to corporate strategy they believe are not in the best interest of shareholders. The board monitoring and control function becomes difficult with insider dominated board since they cannot provide appropriate monitoring against itself (Fama, 1980). The independent outside director brings to bear the much needed neutrality and objectivity in the board discuss.

While most of codes for best practices have emphasised the need for mix directorship with greater non executive representation, empirical evidences remained conflicting with respect to whether such inclusion significantly induce firm performance. Some researchers found positive relationship (Shleifer and Vishny, 1997; Perry and Shivdasani, 2005; Rhoades et al., 2000; Rosenstein and Wyatt, 1990; Jackling and Johl, 2009), others report either negative or no relationship between the board configuration and firm performance (Yermack, 1996; Dulewicz and Herbert, 2004; Dalton et al., 1998; Erickson et al., 2005; Bhagat and Black, 2000; Weir and Laing, 2001; Shivdasani and Zenner, 2002; Heracleous, 2001; Hsu, 2010; Daily and Dalton, 1992). Bhagat and Black (2000) conducted a financial performance study on 934 largest US firms covering 10 year period and questioned the empirical validity of the need for board independence. They reported that while firm suffering from decline financial performance, increase proportion of outside directors on the board, no clear evidence that such addition were compensated by improved performance.

However, contrary to the above findings, Jackling and Johl (2009), examined a sample drawn from 180 top Indian firms and reported that greater outside directors representation on corporate board is positively associated with improved firm performance. Furthermore, outsiders dominated board are said to be more effective when it comes to carrying out specific tasks such as replacing poor performing CEO (Weisbach, 1988), external linkage (Bazerman and Schoorman, 1983; Baysinger and Zardkoohi, 1986; Mizruchi and Stearns, 1994); and strategy initiatives (Baysinger and Hoskisson, 1990; Johnson et al., 1993).

### 2.2.2 Board Size

The board size represents the total head counts of directors seating on the corporate board. Size of the board is recognised as one of the unique features of board dynamics with considerable but strategic impact on the board independence as well as the overall quality of corporate governance (Jensen 1993; Donaldson and Muth 1998; Shivdasani and Zenner, 2002). The size of board is vital to achieving the board effectiveness and improved firm performance especially from resource dependency perspective which place more emphasis on the board ability to co-opt limited and scares resource from various external links (Kiel and Nicholson, 2003). Board size affects the quality of deliberation among members and ability of board to arrived at an optimal corporate decisions. However, determining an ideal size of the board has being an ongoing and controversial debate in corporate governance literature. Lipton and Lorch (1992) one of the early pioneers of board size proxy recommended a minimum of seven and maximum of nine board memberships. While, Jensen (1993) recommended an optimal size of eight, Shaw (1981) suggested board size of five which was supported by some subsequent empirical findings (e.g. Mak and Yuanto, 2003). Identifying the appropriate board size is of high significance because size can be detrimental to board effectiveness beyond certain limit (John and Senbet, 1998; Yermack, 1996). Bennedsen et al., (2008) argued that optimal board size is a function of many variables such as firm age, size, industrial classification as well as the degree of monitoring and value addition required amongst others (Connelly and Limpaphayom, 2004).

Most researchers had adopted the organisational behaviour approach to studying the impact of board size on corporate performance (Smith et al., 1994; Jensen 1993). Therefore, small board size was favoured to promote critical, genuine and intellectual deliberation and involvement among members which presumably might led to effective corporate decision making, monitoring and improved performance (Firstenberg and Malkiel, 1994; Donaldson and Muth, 1998; Lipton and Lorsch, 1992; Jensen, 1993; Hermalin and Weisbach, 2003; Vafeas, 2000; Yermack, 1996). Other advocates of board dynamics offer support for a larger board size. Their views were anchored on the premise that large board size promotes diversity which gives the firm a competitive edge in different fronts ranging from more expertise, experience, skills, resource co-optation, corporate strategy, innovation, creativity and provision of broad services (Dalton et al., 1999; Klein, 2002; Forbes and Milliken, 1999; Jackling and Johl, 2009; Provan, 1980; Dalton and Dalton, 2005). The larger the board size the more expansive are the

experiences that can be tapped which helps in the corporate decision making especially with presence of more independent outside directors seating on the board.

From the empirical perspective, studies on board size are to some extent lopsided as most findings showed clear negative or mix relationship (Eklund et al., 2009), which reflects the ambiguous nature of the proxy in explaining firm performance. The prominent among the studies is that of Yermack (1996) who investigated a sample 452 US industrial firms covering eight year period (1984 to 1991) and found recurring negative relationship between board size and firm performance. Negative relationships were also reported in most other similar studies (Eisenberg et al., 1998; Lopez et al., 2005; Barnhart and Rosentein, 1998; Daily et al., 1999). However, positive nexus were reported in some few quarters with respect to board size driving improved firm performance (Adam and Mehran, 2003; Wangner et al., 1998; Kiel and Nicholson, 2003 Jackling and Johl, 2009; Pearce and Zahra, 1992; Dalton et al., 1998). Wangner et al., (1998) conducted a meta-analysis on 29 previous empirical studies and reported that board size is vital in determining firm performance irrespective of board configuration.

Majority of documented evidences have demonstrated that small board are more efficient and effective and are thus more likely to provoke improved corporate performance. However, taking into account the above equivocal findings, one would realised that the size of board in terms of quantity is materially insignificant compared to the quality which determine effectiveness of corporate deliberations and decision making.

### 2.2.3 CEO Duality

CEO Duality is defined in respect of one person heading both the Management and the Board (Chien, 2008; Finkelstein and D'Aveni, 1994; Weir and Laing, 2000). According to the Agency theorists, CEO Duality creates imbalance in corporate power distribution as heavy concentration of management and control resides with one person which tend to jeopardised board effectiveness (Eisenhardt, 1989). This imbalance makes it inevitably difficult for the corporate board to provide appropriate monitoring or even institute punitive measure against erring CEO due to absence of independence (Jensen and Fama, 1983; Brickley et al., 1997; Keller et al., 2006; Dalton and Kesner, 1987; Shivdasani and Yermack, 1999; Goyal and Park, 2002; Wan and Ong, 2005; Morck et al., 1987; Dayton, 1984). The integrity of information available to board is compromised with CEO duality due to asymmetric as CEO determines what kinds of information are brought to board attention. Agency theorists thus, argued that the separation of the two positions will reduce the agency cost and promote corporate transparency and accountability (Weir and Laing, 2001).

Empirical evidences have been divergence in respect of CEO Duality and how it affects firm performance. The reported evidences ranges from positive (Peel and O'Donnell, 1995; Pi, and Timme, 1993; Coles et al., 2001; Brickley et al., 1997; Boyd, 1995; Rechner and Dalton, 1991) to negative and mix findings (Adams et al., 2005; Heracleous, 2001). However, despite the inconsistencies in previous findings, support for agency theory still remained vibrant as the call for the separation of the position of CEO and that of Board Chair by far dominated recommendations in most corporate governance guidelines around the world (e.g. Cadbury Report, 1992; & Nigeria SEC Codes, 2003 etc.).

### 2.2.4 Board Diversity

Board diversity is anchored on both the stakeholders and resource dependency theories. Diversity of board involves having a well balanced board membership that is made of individuals not necessarily from different cultural background but those from different professional fields which create synergy that helps board in carrying out its statutory responsibilities (Carpenter and Westphal, 2001). Thus, corporate board diversity represents both demographic (e.g. gender, age, and ethnicity) and cognitive elements such as the industry experience, professional and educational qualifications (Kang et al., 2007; Erhardt et al., 2003). Although cognitive elements had in recent times taken precedence over demographic variables, the existing literature on board diversity are somewhat uneven towards demographic issues (Erhardt et al., 2003;) rather than competencies that often determined the degree to which directors add value to board processes and discuss (Carter et al., 2003). Keeping a well diversified cognitive board create an in-house self reliance whereby everything firm requires ranging from effective monitoring, resource co-optation, to quality decisions and sound corporate initiatives are all within reach (Watson et al., 1993). Further to the above, Carter et al., (2007), posited that a well diverse independent board is more vigorous in promoting corporate fair play.

At the empirical level, different attributes of board diversity were subject of investigation but the result of findings as documented in literature remained mix and equivocal. Some reported that board diversity is positively associated with improved firm performance (Erhardt et al., 2003; Carter et al., 2003; Richard, 2000; Roberson and Park, 2007; Shrader et al., 1997), while others found negative and even no relationship in several instances (Shrader et al., 1997; Zahra and Stanton, 1988; Dalton et al., 1998). In a meta-analysis based on data drawn from 85 previous empirical

studies, Dalton et al., (1998) found no relationship. But while using data drawn from 127 large US companies, Erhardt et al., (2003), reported a positive association between women and minorities on board with improved firm performance. This finding was subsequently supported by Smith et al., (2006) results which showed similar outcome.

### 3. Methodology Issues & Performance Variation

While there are strong believe that corporate governance is vital to firm performance especially at board level, empirical evidences have not done pretty well in providing the much needed support in this regard. We therefore, conducted a further casual check on some of the available previous studies, our findings on why the inconsistency was enormous. The discrepancies in findings are partly due to empirical flaws driven by wrong conceptualisation and weak methodology (Finkelstein and Hambrick, 1996; Adjaoud et al., 2007; Van den Berghe and Levrau, 2004; Heracleous, 2001). The theories of corporate governance have not help matters. Although these theories have provided some useful insights that had help our understanding of corporate governance (Hermalin and Weisbach, 2003), the lack of convergence due to extreme positions held by these different theories had to an extent limited their empirical benefits (Jackling and Johl, 2009).

The major cause of conflicting results can be attributed to the way and manner quantitative models of corporate governance are built in some previous studies. The syndrome of assumed “*Express relationship*” instead of “*mediation approach*” is a serious challenge that had mitigated consensus findings (Daily et al., 2003; Shleifer and Vishny, 1997). This assumption of direct relationship is too simplistic and narrow minded because it views corporate governance as a “*differentiator rather than a qualifier*” (Heracleous, 2001). Most studies took a direct relationship approach and therefore had used statistical tools to evaluate the state of relationship between board dynamics and firm performance. The ideal scenario perhaps should involves using mediation model in which cause effect of the relationship is first identified, before determining whether it induces performance or not (Kiel and Nicholson, 2007;Glastein, 1984). For instance, it is logical to first identify if board size affects quality of corporate board decision before moving further to ascertain whether such board decision has impact on firm performance (*Board Size* → *Quality Decision* → *Firm Performance*). The causes of vague findings rest on the fact that the traditional assumed direct relationship tends to distort the sequence of research hypothesis.

Another issue associated with model specification is the use of control variables and the assumed proxies. Different studies control for the effect of different variables in their models using a variety of proxies as surrogate. While most previous empirical studies controlled for the effect of firm size, others had controlled for the effect of firm age, industrial grouping and associated risk. Take firm size for example, some studies used number of employees as surrogates, while others used turnover as substitutes instead.

The nature and type of performance measures used during investigations are one of the culprits responsible for the inconsistencies in findings even when same theoretical framework is employed. Presently, there is no generally acceptable measure of firm performance (Johnson et al., 1996). While most studies had relied on Tobin’s Q and more recently Economic Value Added model, others made use of market based or accounting performance measures. Each of these measures offers some benefits and at the same time often associated with drawbacks that tend to distort the outcome of the test and ultimately the validity and reliability of the results. For instance, the use of market measures is sensitive to changes in the external environment. According to Barnhart et al., (1994), Tobin’s Q is tantamount to estimation errors and subjectivity in the part of investigator. Thus, the two measures cannot be absolutely relied upon to capture all firm value (Rose, 2005). These views were supported by Denrell, (2004) and Starbuck (2004) who opined that measures of performance have failed the empirical studies as they have been characterised with lots of errors ranging from measurement related to sample data errors.

Data source is another justification for the ambiguous findings. Most corporate governance researchers are of the view that the difficulties in arriving at similar findings and conclusions might not be unconnected with the data sources. Majority of existing studies had relied on public information source which mostly does not reveal the vital attributes of board of directors that might be of relevance to the investigator.

### 4. Discussion and Recommendation

In this section, we discuss some of the key challenges of corporate governance research and how future research can avoid the mistakes of the past.

Corporate governance researchers have relied on singular theory for so long and this had not helped the field in gaining the much needed appreciation of the relationship between board and firm performance. The board roles as documented in literature are diverse ranging from monitoring, strategy, resource co-optation, and advisory amongst others (Jensen and Meckling, 1976; Daily et al., 2003; Hillman and Dalziel, 2003; Zahra and Pearce, 1989; Johnson

et al., 1996). These numerous functionality expected of board has makes it virtually impossible for a single theory to accommodate (Kiel and Nicholson, 2007). There is a need for permutation of new theories and models as well as more innovative empirical studies to really understand the importance of corporate board (Eisenhardt, 1989a; Jackling and Johl, 2009; Donaldson and Muth, 1998). The use of more integrative approach in the empirical investigation may induce the robustness and validity of the findings (Guerra et al., 2009). Most of the available theories might be out of touch with current corporate realities since they were built on certain premises and parameters that might have been either outdated or overtaken by recent events (Hermalin and Weisbach, 2003).

There is an urgent need for diversification of approach to the study of corporate board. Researchers ought to move away from the traditional approach of outside study that focus mainly on board structure (Zahra and Pearce, 1989; Dalton et al., 1998) to a more purposeful insider perspective that x-ray internal activities, processes and real time board happenings which might help in unlocking the “*Black Box*” mystery (Huse 2005; Eisenhardt 1989; Robert et al., 2005; Wan and Ong, 2005; Weir and Laing, 2000). The architectural approach has over the years failed to spot the definitive role of board as it affects corporate performance. The study of board competencies especially those related to directors’ cognitive personalities which to some large extent determines the quality of discuss that goes on in the black box (i.e. board room) should also be given priority (Stiles and Taylor, 2001; Leblanc, 2004).

Board structure may vary depending on industrial classifications just as performance between firms within the same economic condition or country tends to varies (Laing and Weir, 1999). Therefore, code for best practices should be adopted in way that suite each industry. In Nigeria for example, realising the peculiarities that existed, while there is *SEC Code for best practices* that are applicable to all listed companies on the floor of Nigeria Stock Exchange, some industrial regulators like National Insurance Commission (NAICOM), Central Bank of Nigeria (CBN) and National Pension Commission (PenCom) had all came up with their own specific but complementary codes for corporate governance that took into account their industrial peculiarities.

Corporate governance researchers have consistently also relied on some sought of methodologies and performance measures, not taking into account the fact that the situation which necessitated the use of such approaches in previous empirical studies might have gone obsolete. Thus, no longer have the efficacy required to track appropriately the variable to be predicted. The time is right for the use of expanded methodology that allowed for cluster analysis (Finegold et al., 2007; Rechner and Dalton 1991). However, it is good to note here that progress are being made in the area of performance measures as new generation of empirical studies are beginning to explore other alternative measures of performance such as the use of “Economic Value Added Model” and Marginal q. These techniques have so far shown a lot of promise (Adjaoud et al., 2007).

The timing is essential in any form of investigation. In corporate governance, most previous research had ignored the effect of timing in appreciating the relationship between variables. While relationship might exist between two or more variables, it takes time for the nature and degree of such association to manifest. Even when narrow or layman approach is used, strong presumption can still be visible that sound corporate governance should led to superior corporate performance. However, time would be required from when the governance mechanisms are fully deployed to when the impact of such are felt in terms of improved performance.

Despite more than two decades of corporate governance research, the documented findings are grossly asymmetric with majority of studies coming from US closely followed by UK as well as other developed economies (Huse, 2007; Jackling and Johl, 2009; Vafeas and Theodorou, 1998; Johnson et al., 1996; Yermack, 1996). There is urgent need for developing and emerging economies impetus especially from Africa where we presently have the least of empirical studies. Firm level studies from developing countries especially those with weak legal environment may be of high importance to the field (Klapper and Love, 2002). Over the years the lack of adequate documented evidences from African perspective especially the emerging economies within the continents like Nigeria has undoubtedly impaired policy makers in forging appropriate cause for improved corporate governance.

Finally, most of sample data used in previous studies were not diverse enough. They mostly comprise of firms from same industrial classification or in some instances they were either small or large firm. Therefore, the collection of data on longitudinal basis may help in drawing causal inferences and validates some of the research findings (Bhagat and Black, 2000).

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