

A Review of Frontier Research on the Board Governance and Future Prospects

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Abstract: In recent decades, the research on board governance has been increasingly in-depth in academia, and it has evolved from a research problem to a research field. We review research on board governance over the past decades. First of all, we briefly trace back to the origin of the problem of board governance. Secondly, the prior literature on the board governance is reviewed to reveal the current research status in this field. Finally, we list some ideas and suggestions for the future study of board governance.

1. Introduction

In the study of Denis & McConnell (2003), they divided the corporate governance (CG) system into two categories, external governance and internal governance. External governance involves government supervision, legal system, etc. (Gillan 2006). Internal governance mostly embodies the features of CG, including equity structure, manager incentive, the size of the board of directors (BOD), etc.

The BOD is the core of corporate governance and acts as the bond between the shareholder and the management. It not only represents shareholders, but is also responsible for managing and supervising the management. It is the vital node of improving corporate governance and optimizing governance mechanism. How to improve the structure and competence of the BOD, standardize the performance of the BOD, and activate the effectiveness of the BOD is the focus of the research on the board governance.

How does the BOD influence the corporate performance? In the past few decades, great interest has been aroused among scholars from different disciplines by this question, including management, economics, finance as well as sociology. Nevertheless, the conclusions are not uniform, and some even contradictory. The follow-up research began to more and more focused on how the BOD can improve its efficiency. For example, the board of directors changes and improves the composition, internal organization and decision-making process of the BOD etc. as the means of corporate governance to improve its efficiency. However, the significant basis of these research conclusions is that the theory on which they are based is quite different in terms of birth background, role of the BOD, variable selection, performance standards, and so on. Without clarity on these essential fundamental issues, it is difficult to expect significant progress in the study of board governance.

In the next section, we focus on the topic of board governance research, sort out its theoretical roots, and provide a vitally important foundation for us to deeply understand the operation efficiency and effect of the board of directors. Then in section 3, we discuss the research status of board governance according to four topics: the basic characteristics of the board and its governance effect, the personal background characteristics of the board members, the staggered board and its value, and the board relationship network. Section 4 discusses the direction of future research on board governance. Section 5 concludes.

2. The theoretical root of board governance

From the research of the board of directors in the past decades, we can see that the research about the role of the BOD and its degree of function generally follows five different theoretical dimensions: legal perspective, resource dependence perspective, class hegemony perspective, agency theory

perspective, and stewardship theory perspective. These theories are different in what the board of directors should do, what important characteristics it includes, what attributes of the board will affect corporate performance, and how to measure its contribution.

In the field of financial and economic research, in terms of contribution to the BOD, the agency approach is the most recognised. Jensen and Meckling (1976) believe that with the continuous expansion of the scale of enterprises, the separation of ownership and management rights is a critical feature of modern enterprises, and enterprises are also regarded as an assembly of numerous contracts. The relationship between owners and managers is defined as a principal-agent relationship. In this relationship, the owner is the principal and has the right to claim residuals of the assets and cash of the business. At the same time, the operator is an agent who is directly responsible for the operation of the enterprise.

Agency Theory holds that agency relationship is the core point of analysing and studying corporate governance. At the same time, according to this theory, people are rational economic men who pursue the maximisation of their own interests and tend to serve themselves. Due to the decentralization of enterprise ownership, senior executives (so-called "agents") have a lot of freedom and power. In the absence of supervision, these executives are considered to pursue goals that may contradict the objectives of the client ("owner"). In this case, managers may ignore shareholders' wealth to the utmost; that is, they will sacrifice the owners' interests for their own private benefits (Masson 1971). In this case, the BOD is charged with overseeing and rewarding senior executives to make sure the maximization of shareholder wealth. In essence, the BOD is seen as the ultimate mechanism of corporate control.

Under the framework of agency theory, numerous investigations research on how to reduce the agency problem of enterprises, for instance, the research on the structure of the BOD, the behavior of the BOD, the characteristics of directors, and so on.

3. Prior literature on board governance studies

As the bond between the shareholder and the management, the BOD is a crucial part of corporate governance. As a pivotal internal governance mechanism, the BOD mainly plays two roles: guidance and supervision. From diverse perspectives, a number of scholars have carried out investigations on the mechanism of the BOD and how to improve the BOD's efficiency. Over the years, the studies upon the BOD has been "prosperous forever". However, the starting point of the studies on the governance of the BOD has changed from analyzing the elementary characteristics of the BOD at the initial stage to the research on the interaction effect between the BOD and the management and the association network of the BOD.

3.1 Research on the basic characteristics of the board of directors and its governance effect

After 2000, especially since the execution of the Sarbanes Oxley Act, in enterprises of all sizes, the size of the BOD and the percentage of external directors in an enterprise have both been enlarged. In addition, the BOD's role has been increasingly strengthened, while the influence of CEO on the BOD has been progressively weakened.

In a general way, the increase of the board of directors can increase its ability to supervise the managers of the company, which can effectively restrict the bad phenomena such as "the situation of one stock's dominance". Meantime, increasing the number of directors on the board gives the BOD a chance to introduce talents, who are more professional and have substantial experience in governance. This is favorable for improving the company's financial performance (Dalton1999; Nguyen et al.2015), and in terms of disclosing information of their internal controls, companies will also be more willing than before (Allegrini and Greco2013). However, for directors, it may also become more difficult to reach consensus when making decisions because of the expansion of the BOD. In the process of communication and coordination of opinions, the management cost of the company will be increased, so that the decision-making efficiency will be reduced, and thus the business performance of the company will be low (Mark and Kusnadi 2005). As a consequence, a moderate number of board members is conducive to improving corporate performance. Too high or too few board sizes

are bound to affect the improvement of enterprise performance. Therefore, an inverted "U" relationship exists between the scale of the BOD and corporate performance (Yu and Chi 2004). There is also study based on the complexity hypothesis that the complexity of the company affects the connection between board size and company value (Tobin's Q), and there is no most ideal board size. In addition, the research shows that directors with more work are more enthusiastic in maintaining their own reputation capital, and the increasing board titles result in the extension of board scale to some extent as well (Coles et al. 2008).

The independence of the BOD can be indicated by the percentage of independent directors on the board. Pombo and Gutierrez (2011) believe that increasing the proportion of independent directors would make the activities of supervising and restraining the behaviors of management more effective. In addition, independent directors generally have abundant external resources, therefore, increasing the percentage of independent directors is beneficial for the company in obtaining more important external resources and thereby promoting the growth of the company's financial performance. Different from Pombo and Gutierrez, Nas and Kalaycioglu (2016) analyze the disadvantages of expanding the percentage of independent directors in the company from a theoretical perspective. According to their results, this would not only raise the management cost, but also may lead to collusion between internal and external interest groups. Listed companies in China began to implement the system of independent directors since 2001. It has become a crucial adjective topic of corporate governance research to evaluate the independent directors' influence. In the early stage, the research on independent director mainly focuses on qualitative research, and theoretically discusses the independent director system and design, for instance, the definition of independent director independence (Xiang 2002), the implementation characteristics of independent director system (Tan et al. 2003), and the functional positioning of independent director (Qi et al. 2004).

With the enrichment of empirical data, scholars have analyzed the effectiveness of independence directors from a number of aspects, including the independent directors' effect on corporate performance (Wang et al. 2006), the inhibition of major shareholder tunneling by independent directors (Ye, Lu, and Zhang 2007), the quality of earnings information of independent directors and listed firms (Hu and Tang 2008), the independent directors and corporate value (Zhao et al. 2008), etc. After that, the research goes deep into the specific functions of independent directors (Tang et al. 2010; Liu et al. 2010; Ye et al. 2016). With the intention of effectively fulfilling the function of independent directors, it is also of great importance to motivate independent directors (Niu and Zhao 2012; Luo 2014; Shen and Chen 2016).

In terms of the roles of the BOD, Pu and Liu (2004) analyze the relationship between the different forms of the leadership structure of the BOD and the corporate performance in view of the diverse leadership structures that existed in the company's control. And the research obtains the conclusion that integrating two positions has negative influence on the corporate performance through empirical analysis. In addition, it is difficult to ensure the independence of directors when the chairman and general manager are held by one person, making it difficult to perform the role of the BOD (Huang et al. 2013). Xie and Zhao (2011) empirically test the connection between a company's board structure and its strategic choice. The results show that the board structure significantly impacts the diversification strategy of the company, and compared with the principal-agent theory, the resource dependence theory can better explain this impact. It should be noted that in addition to the personnel structure, the board structure also has organizational structure problems, which are reflected in the establishment of special committees, such as Wang and Tu (2006), Xie (2006), Hong and Fang (2009), Pan and Yu (2017), which empirically test the governance effectiveness of the audit committee of listed companies. However, the "black box" of the governance role of the BOD needs to be further opened.

3.2 Research on the personal background characteristics of board members

Executives' ideas, opinions and understandings, can influence a firm's strategic planning and business performance. However, it is hard to measure these features. In practice, they are usually indirectly deduced through a variety of indicators that can be quantified, including age, title, and

length of service (Hambrick and Mason1984).Lin et al. (2014) point out that since COSO issued a series of bills to enhance the effectiveness of internal control, more and more senior executives have paid more attention to the establishment and effective implementation of internal control system. Among them, the older senior executives, due to their relatively longer working years in the company, have higher recognition of corporate culture and system, and their management has also focused more on the company has excellent internal control environment. In addition, educational background is also a key personal background characteristic that affects board governance. Education to a certain extent reflects a person's mentality, cognition, understanding and other internal information. Members of the board of directors with a higher level of education generally have higher mental endurance and a stronger sense of and sensitivity to things (Wiersema andBantel1992).

A large number of studies also pay attention to the influence of professional background from the perspective of human resource characteristics. By analyzing the relevant data of China's contractual closed-end securities investment funds in 2002, He (2005) explores the characteristics of the governance structure of fund and fund management companies and the relationship between the independent directors of fund management companies and fund performance. According to the study's results, the higher the proportion of independent directors who have expert knowledge of financial and securities and work experience on the BOD of a fund management company, the higher the fund performance and the lower the fund net asset expense ratio. Furthermore, the introduction of talents with overseas education or working background by listed companies positively affects the development and growth of enterprise performance (Hambrick and Mason1984).Khanna (2008) compares the development process of Chinese and Indian listed companies, and confirms the significance of talent exchange. If a director of the BOD of the company has studied the excellent governance concepts and management methods of other countries, he or she may tend to spread the knowledge to other directors and provide a guidance for the company to learn from other countries' developed management systems. Meanwhile, in order to decrease the production cost of enterprises and promote the performance level of enterprises, they may also apply the production techniques from oversea to their enterprises.

In the past ten years, the gender diversity of the BOD has turned into a crucial topic of corporate governance (CG).The diversity of the BOD, the existence of female members on the board in particular, keeps rising in the studies about the CG and the role of corporate value. Moreover, women members on the board are likely to have an impact upon corporate social responsibility (CSR) and environmentally political practice. In order to study the influence of the BOD's female members on CG and corporate performance, Adams and Ferreira (2009) use the data of investor responsibility research center from 1996 to 2003 to carry out the analysis. Based on their results, the presence of female members on the board would have an influence upon the incentives established on attendance and performance, as well as board meetings. Under the control of the endogenous gender diversity of the BOD, no rise in female directors positively impacts the company performance. However, it impacts the market value and operating performance in a negative way. Emphasizing that the gender ratio of the BOD is not able to improve the effectiveness of the BOD, and gender diversity will only have a positive effect in companies with poor governance. Relatively speaking, the diversification of directors needs further study.

3.3 Research on staggered board and its value

Staggered boards originate from the capital market in the west developed countries. Anti-takeover clauses remain widespread among S&P 500 companies, with about 60 per cent of them having staggered boards (Bhojraj et al. 2017).The directors in the staggered board consist of several levels (often three layers). In an annual general meeting of shareholders, only one level of directors is reappointed. This structure avoids the control of voting rights or the protection of acquisition offers, so it is a mechanism of protecting the management through raising the complexity of takeover. The staggered board clauses forbid shareholders to change most of the board of directors in an election, which leads to the decrease of the value of the company. Faleye (2007) investigates 2021 American sample companies and find that the BOD of 1000 companies belong to staggered BOD. The author's

further empirical research find that staggered boards damage the value of a company by entrenching managers and reducing the effectiveness of directors. On the contrary, some scholars believe that staggered boards can convey the commitment signal of a company's stable operation (Johnson et al. 2015), and can reduce the contract cost with stakeholders, so as to enhance the value of the company (Cremers et al. 2017).

3.4 Studies about the relationship network of the BOD

Members of the BOD usually serve in several companies and hold multiple director titles. The different boards where directors serve are related to each other, thus forming a network of board relations. These board members are called interlocking directors. Directors who have positions in several firms are able to provide more resources for the firm and improve corporate reputation. However, directors may not be able to ensure that they have sufficient energy and time to supervise and assess the behavior of the managers. The relationships between CEOs and directors can be divided into two categories, the professional ones and non-professional ones. Chidambaram et al. (2010) discuss the influence of the two kinds of ties on the company's financial fraud, and they find that the ties between CEOs and directors related to the probability of financial fraud in a significant way, which confirms the view of "cooperative board of directors". They also confirm that the independence of BOD significantly related to the probability of fraud in a negative way, and directors who have positions on several boards are also able to reduce the possibility of fraud.

In China, the research is mainly carried out based on summarizing the theoretical discussion and empirical research on the issue of interlocking directors in the west. For example, Ren et al. (2001) pay attention to the problem of chain directors in Chinese enterprises earlier. And the researchers test the impact of interlocking directors on corporate performance. They specifically describe the distribution of inter-firm association caused by interlocking directors in the sample enterprises based on the investigation of more than 100 enterprises with the largest income among the listed companies in China. Lu and Chen (2009) clarify the essence of the organizational function of chain directors based on the premise that "the reconstructed fracture connection serves the organizational purpose". Han, Tian and Li (2015) study the impact of the relationship between interlocking directorates on the decision-making of voluntary disclosure of CSR reports from the aspect of inter-organizational imitation based on the role of chain directors in information transmission. In addition, the board of directors' relationship network also has different influences on corporate investment (Chen and Zheng 2017), R&D and innovation (Yan et al. 2018).

4. Future research directions of board governance

Although there have been a lot of researches on board governance, through the above review and analysis, we can find that we still have little understanding of the way and mechanism of the relationship between board attributes, roles and performance. Especially with the continuous development of corporate governance practices and the change of economic environment, there are still a lot of unknown areas for the study of board governance that need to be explored. Here we list some ideas and suggestions for further research.

4.1 Uncovering the black box of board operation

Some scholars have enriched conventional data through combining interviews and surveys, trying to break the "black box" of board procedures and motivation (Pearce and Zahra 1991; Westphal 1999; Lawler 2002). Although this method shows a good prospect, it has limitations not only because of its small sample and time-consuming, but also because of the current corporate governance environment. The excessive investigation of consulting companies, the combination of the new regulations of the BOD, as well as the increasing attention to the disclosure of information related to the board's behavior, which may be used in shareholder litigation, makes our research on the board of directors more difficult. Another way to increase our understanding of the internal state of the black box is experimental research. For instance, Gillette et al. (2003) experiment with board decision-making by having students from business school to act as corporate directors. Their results show that when there

are 30 different simulated decisions, when there is no external director or supervisor appointed to the BOD, the internal directors always choose the projects that are valuable and destructive but beneficial to themselves. However, when there are four external directors among the seven directors, they begin to adopt projects with value and creativity to the company. In addition, when the board of directors is randomly divided, the external directors are the most effective in promoting the value creation decision-making role.

Therefore, the “black box” of board governance needs further research.

4.2 Internationalization of board governance

From domestic corporate governance to multinational the corporate governance, the formation of corporate governance model will be affected by different politics, laws, economy and culture. However, with the development of global economic integration, corporate governance models of various countries are intertwined and infiltrated to different degrees. In the increasingly fierce market competition, the company survives the fittest, develops and grows, and gradually moves from the domestic operation to the transnational operation. When domestic enterprises use their own advantages to carry out multinational operations, they still encounter many governance problems, which results in irreparable losses. Therefore, it is urgent to conduct in-depth research on the principles and laws of transnational corporate governance in practice. The research of scholars also extends from domestic corporate governance to multinational corporate governance. For example, the research on factors affecting the effectiveness of corporate governance extends to the social and cultural level, and more attention has been paid to research issues such as cultural gap, governance rule gap caused by institutional gap and corporate governance risk.

In modern companies, the board of directors is the core of corporate governance, and the center connecting stockholders and the management. In addition to supervising, evaluating, rewarding and punishing managers, the board of directors also participates in the formulation, implementation and control of corporate strategic decisions. According to Salama and Putnam’s (2013) research findings, corporate governance with great quality can promote the international operation of a company. As a considerable part of corporate governance, board governance plays the following three roles within the company: ① Help. Help the company to reduce environmental uncertainty by providing key resources and information. ② Control. Control is achieved through policy formulation and supervision. ③ Strategy. Create a mission, participate in the company's business and select and implement the company's strategy.

Therefore, the impact of board governance on the internationalization of enterprises needs to be further explored. Furthermore, all levels of corporate governance do not act independently on international operation, and different levels are interrelated and influence each other. Given this, we think that we should fully consider the role of intermediary variables, regulatory variables and the interaction and synergy of different levels of corporate governance, and deeply explore the mechanism of corporate governance, so as to better provide guidance for multinationals with operations scatter throughout the world.

4.3 Research on corporate governance in transition economies or emerging markets

The corporate governance (CG) of transformation and emerging market countries has many particularities, because they are in the process of transformation or improvement in terms of market system, regulation environment, capital market and other issues. The research on the legal and political systems of these countries occupies a significant position and has attracted wide attention.

At present, the research on the context of China is turning into the focus of research. Based on this, in the past two decades, why and to what degree does the establishment and development of China's CG mechanism differ significantly from that of other developed or developing countries? What are the typical features of China's exclusive CG transformation path and what are its causes? About the definition of the theoretical concept and operating mechanism of Chinese CG model, the existing literature has not reached consensus. How to explain the inevitability and transition process of the two Chinese CG models by combining the transformation economics and the unique institutional

characteristics of China will be the direction of our future research. In addition, we will also focus on the application of the transformation theory of Chinese CG model to other relevant theories and empirical research.

5. Conclusion

In recent decades, with the growing prominence of board governance in practice, the academic literature about board governance at home and abroad is also expanding. For example, there is increasingly abundant literature on the exploration of the theoretical root of board governance and the connection between board attributes, roles and governance performance. However, there are still a lot of unknown areas for the study of board governance that need to be explored by scholars. How to open the “black box” of board operation? How does board governance affect the internationalization of enterprises? How to deepen the research on corporate governance in the context of transition economies or emerging markets?

The suggestions for these and other future studies in this paper are just examples of many remarkable problems to be solved. We look forward to witnessing and participating in future board governance research.

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