CORPORATE GOVERNANCE AND THE CHARACTERISTICS OF THE BOARD OF DIRECTORS: EVIDENCE FROM AN EMERGING MARKET

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Abstract

The aim of this paper is to investigate the impact of the characteristics of the board of directors on the quality of corporate governance. The paper attempts to uncover the board characteristics that contribute to better corporate governance quality. The paper exploits a unique dataset of the corporate governance index developed by the Corporate Governance Centre for the 92 largest Saudi listed firms for the fiscal year of 2015. Several board characteristics are regressed on the corporate governance scores to find an association. The size of the board of directors is positively associated with better corporate governance quality. In other words, large boards have better corporate governance. Furthermore, large block-holders and government ownership contribute significantly to better corporate governance quality. Contrary to expectations, independent members are negatively linked to corporate governance quality. Companies with a large number of independent members show lower corporate governance quality. Finally, other characteristics of board committees and boards meetings do not show links to corporate governance quality. To the best of the author's knowledge, this is the first paper to attempt to uncover the association between the characteristics of the board of directors and corporate governance quality in the Middle-East (the emerging market of Saudi Arabia). Several papers attempted to study governance issues in the Middle-East, but no direct examination of board characteristics and governance quality was conducted. Most studies investigated the issue of corporate governance and firm performance.

Keywords: Corporate Governance, Index, Board of Directors, Shareholders Rights, Public Disclosure and Transparency, Emerging Markets

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1. INTRODUCTION

In the wake of the global financial crisis and scandals in 2007, the board of directors was often the first to be accused and blamed. This was the case with the collapse of Enron, Worldcom and Parmalat. The Enron and Parmalat boards of directors were held liable for fraud (Adams, Hermalin & Weisbach, 2010).

In emerging markets and in Saudi Arabia in particular, a weak institutional framework and the lack of strong protection for investors place much pressure on the board of directors. The 2014 accounting scandal involving Mobily, the second largest Saudi telecommunications corporation, led to the firing of the company's chief executive officer (CEO)[1].

When things go wrong with a corporation, the board of directors becomes the centre of attention. The globalization and the liberalization of financial markets have increased the need for an effective board of directors. See (Kiel & Nicholson, 2003; and Pugliese et al., 2009) on the roles of the board of directors. The corporate board of directors is the safeguard for corporations and manages day-to-day operations (Adams, Hermalin & Weisbach, 2010; Keasey & Wright, 1993; and Bainbridge, 2003).

The board of directors is the cornerstone of corporate governance. The corporate board of directors is "*a body entrusted with power to make economic decisions affecting the well-being of investors' capital, employees' security, communities' economic health, and executives' power and perquisites*" (Molz, 1985). Corporate governance is a means of ensuring that the suppliers of capital make sure that they receive the returns they desire on their investments (Shleifer & Vishny, 1997). How do the suppliers make sure they will get the required returns? This question puts the board of directors in particular under scrutiny.

Corporate governance is very complicated, and it is usually divided into many categories. Broadly speaking, it can be divided into four dimensions: the board of directors, shareholders' rights and general assembly, public disclosure and transparency; and stakeholders' rights (Gompers, Ishii & Mettick, 2003; Bebchuk, Cohen & Ferrell, 2009). A major dilemma in corporate governance is the separation between ownership and management, which gives rise to the agency problem (Jensen & Meckling, 1976). The key issue for management is the analysis of the board of directors as they are the ones who should work toward aligning shareholders' and other managers' interests. Hillman and Dalziel (2003) state that the board of directors has two major functions: monitoring management and providing resources.

Several studies show that an effective board contributes to better firm performance. For instance, Basco and Voordeckers (2015) find that family- and business-oriented boards have a positive link with firm performance. In contrast, several other studies find a negative relation between board size and firm performance. For example, Bathula (2008) finds that a large board related to poor performance and associates this poor performance with the lack of an effective communication and decision-making process. Therefore, the different characteristics of the board show a different outcome.

This paper examines the relation between the overall corporate governance score and the board of directors' characteristics. The paper tries to answer the following question: Does an effective board contribute to better corporate governance compliance? In addition, the paper attempts to uncover the characteristics of an effective board. In other words, what constitutes an effective board for a corporation? This question has been investigated in the literature. For example, Larcker et al. (2007), Brown et al. (2011), Roberts (2012) and Masli et al. (2018) investigate what contributes to an effective board and find that an effective board has unique attributes. These attributes include independence, competence, active in fulfilment of duties, as well as behavioural attributes.

I use the data on the corporate governance index that ranked the 92 largest companies listed on the Saudi Stock market Tadawul and was published by the Corporate Governance Centre at Alfaisal University. I take the ranking of the companies and regress several board characteristics to investigate whether these characteristics have a link to the general corporate governance score.

The results indicate that the size of the board matters. Large corporations with large boards have significantly better corporate governance scores. In contrast to the expectations, the results show a negative relation between the number of independent members and the overall governance score. However, this result is in line with Clarke (2007) who reports similar findings. Furthermore, the results show a positive relation between block-holders and government ownership variables and the corporate governance score. Block-holders and government ownership contribute to better corporate governance quality. Finally, no link is observed between the board committees and the board meetings with corporate governance quality.

The rest of the paper is organized as follows: Section 2 reviews the relevant literature, Section 3 explains the data sources and provides descriptive statistics and methods used for analysis, Section 4 presents the findings, Section 5 discusses the findings and provides implications, and I conclude in Section 6.

2. LITERATURE REVIEW

The gap in corporate governance in emerging markets is evident. Claessens and Yourtoglu (2013) recommend research on corporate governance in emerging and developing markets. Dupuis, Spraggon and Bodolica (2017) argue that, to date, little is known about the effectiveness of various governance mechanisms in family-owned enterprises operating in emerging markets. Actually, a large number of Saudi listed firms are family-owned firms. The gap is even larger in the Middle East and North Africa (MENA) region. Only a few studies have

[1] Mobily suspended the CEO, Mr. Khalid Al-Kaf, and appointed his deputy in charge temporarily. The Capital Market Authority opened an investigation into accounting errors to determine whether Mobily violated stock market regulations. Mobily reported a shocking profit drop in the third quarter of 2014 and restated earnings through 2013. The audit committee probed accounting errors that wiped out about $380M in previous profits. The share price plunged more than 35% following the scandal.

tackled some issues of the impact of corporate governance on firm performance.

To the best of the author's knowledge, no study has examined the impact of the quality of the board of directors and the relation to the overall corporate governance quality. Ishak, Manaf and Abdullah (2016) recommend future studies should examine the importance of the board of directors in relation to corporate governance despite the difficulties in obtaining data. In particular, they recommend focusing on the effectiveness of the chairman, the non-executive directors, and board sub-committees.

Buallay, Hamdan and Zureigat (2017) examine the association between governance and firm performance among 171 listed firms on the Saudi market. They use market and operating measures and find no association between governance quality and firm performance. Nevertheless, some board characteristics show a significant link to performance. Specifically, they find that the board size and government ownership in the corporation have a significant impact.

Al-Sahafi, Rodrigs and Barnes (2015) investigate the relation between corporate governance and firm performance in the banking sector of Saudi Arabia and find no link. Only the board size and the independence of the board show a significant positive impact on performance. A much broader sample in the banking sector (50 banks) from the Gulf Cooperation Council (GCC) was investigated by Basuony, Mohamed and Al-Baidhani in 2014. The study reveals an association between some governance mechanisms and performance, but the type of relation is unclear.

Hassan, Karbhari, Isa and Razak (2017) examine the impact of board characteristics on firm performance in 32 Malaysian firms for the period 2008 to 2013. The board characteristics the researchers examine include board size, board structure, board independence, board competence, board meetings, and directors' ownership. Among these characteristics, board structure, board competence, and board independence show a positive relation to performance.

Seifzadeh (2015) examines the relation between the CEO and the independent members of the board. He differentiates between two types of CEOs, a founder CEO and a non-founder CEO. He shows that resistance to the existence of independent members by founder CEOs is stronger than that by non-founder CEOs. This finding casts doubt on the effectiveness of independent members when they are present in family businesses that are controlled mainly by founder CEOs. This situation is very common in the Saudi market where the majority of the listed firms are controlled by either the government or families.

To sum up, the gap in corporate governance in emerging markets is evident. The board of directors plays a vital role in corporate governance. The characteristics and attributes of effective boards are unclear. In addition, the impact of board attributes on firm performance is inconclusive.

3. DATA AND METHODOLOGY

3.1. Data sources

I use the data on the corporate governance index (CGI) developed by the CGI team for the largest 92 Saudi listed corporations for the fiscal year of 2015[2]. The size of the company is measured by the market cap. This is to test whether there is a link between the overall corporate governance score and board characteristics.

The index uses four corporate governance categories: board of directors, shareholders' rights, public disclosure and transparency, and stakeholders' rights. The index uses 117 variables (questions) to assess firms' compliance with corporate governance standards published and enforced by the Capital Market Authority (CMA) and recommended by the World Bank. The answers to these questions are yes, no, or partially yes, which are scored 1, 0 or 0.5, respectively. The overall corporate governance score then is the weighted average score for all four categories.

Data on the board characteristics were gathered from the score cards used to assess Saudi firms' compliance with CMA corporate governance principles. The score cards transform each principle into a measurable question that can be answered: yes, no or partially yes, which means full compliance, no compliance or partial compliance.

The scoring process relies on data available on the Saudi Stock market Tadawul. Tadawul publishes corporations' quarterly and annual financial statements, board reports, announcements, general meetings minutes, and board and executive management structures.

Table 1 Panel A shows the full index and the ranking of the 92 companies. The index ranks companies form best to worst on a scale of 100 points where 100 represents perfect compliance and zero no compliance at all. The highest score was 92 points out of 100, while the lowest score was 46, which shows a large variation among Saudi firms' compliance. The average cumulative corporate governance score was 70. Panel B of Table 1 shows statistics for the whole sample. The panel shows the statistics for the cumulative corporate governance score and the individual category score. This includes the score for the board of directors, shareholders, public disclosure and transparency.

Table 2 shows summary statistics for the board of directors characteristics used to analyse board performance. It can be clearly seen that the board size varies between the maximum of 12 members and a minimum of six with an average of four. The median number of independent members is four, which is more representative for the average in this case. The statistics also show that the majority of the board members do not have an executive role on the board. The government ownership shows that the government remains a major owner of numerous firms.

[2] This index was developed by the Corporate Governance Center of the college of business, Alfaisal University.

Table 1. Panel A. The corporate governance index for 92 largest Saudi listed companies for the fiscal year of 2015

CGI score%	*CGI rank*	*CGI score%*	*CGI rank*	*CGI score%*	*CGI rank*
91.9	1	71.9	32	66	63
90	2	71.6	33	65.7	64
88.3	3	71.3	34	65.5	65
88.2	4	71.3	35	65.5	66
86.9	5	71	36	65.3	67
81.4	6	71	37	65.3	68
80.8	7	70.7	38	65	69
80.6	8	70.3	39	64.9	70
80.3	9	69.4	40	64.8	71
80.3	10	69.2	41	64.7	72
80.2	11	69.2	42	64.6	73
79.9	12	69.1	43	64.5	74
79.8	13	69.1	44	64.4	75
79.7	14	69	45	64.3	76
79.2	15	68.9	46	64.2	77
78.8	16	68.8	47	63.8	78
78.6	17	68.3	48	63.7	79
78.4	18	67.9	49	63.6	80
78.4	19	67.7	50	62.9	81
78.4	20	67.7	51	61.9	82
78.3	21	67.5	52	61.4	83
77.4	22	67.3	53	61.3	84
76.2	23	67.2	54	60.7	85
75.6	24	67.2	55	60.4	86
75.1	25	67	56	59.8	87
74.7	26	66.9	57	59.3	88
74.5	27	66.9	58	59	89
74.3	28	66.9	59	58.1	90
73	29	66.8	60	56.8	91
72.9	30	66.3	61	45.7	92
72.6	31	66.1	62		

Note: This table illustrates the ranking for all 92 companies from best to worst.

Table 1. Panel B. Statistics for the corporate governance index

		Cumulative CG Score	*BOD Score*	*Shareholders Score*	*Public Dis. and Tran. Score*	*Stakeholders Score*
N		92	92	92	92	92
Mean		70	82	81	59	32
Median		69	81	83	58	31
Std. Deviation		8	7	11	13	17
Range		46	33	70	60	81
Minimum		46	63	28	30	8
Maximum		92	97	98	89	88
Percentiles	10	61	75	72	43	12
	20	64	78	77	47	15
	30	65	78	78	53	23
	40	67	79	80	54	23
	50	69	81	83	58	31
	60	71	83	85	61	35
	70	74	84	85	67	38
	80	78	87	88	70	46
	90	80	93	92	75	54

Note: The index ranks the largest 92 Saudi listed firms based on their adherence to the CMA standards. Cumulative CG score is the overall corporate governance score, BOD score is the scoring for the board of directors' category and other columns report the individual score for each of the other categories.

Table 2. Summary statistics on the board characteristics

Variable	*Mean*	*75th Percentile*	*Median*	*25th Percentile*	*Max*	*Min*
Corporate governance score	47	76	69	65	92	46
Board size	4	10	9	8	12	6
Independent members	1	5	4	3	10	2
Executive members	3	1	1	0	3	0
Block owners	0	3	2	2	9	0
Government ownership	15.5	21	5	0	84	0
Board meetings	4	6	5	4	15	3
Committees	1	4	3	3	6	2

3.2. Theoretical framework and model setup

The importance of an effective board for the governance of the corporation and success is well documented. Board members are responsible and considered liable if things go wrong. This has been the case with the failures of some well-known successful corporations, including Enron. The situation is more severe in emerging markets, which are often characterized by a weak legal framework and dominant power in family-owned businesses. Theoretically, an effective board contributes to reducing agency costs (Jensen & Meckling, 1976). Therefore, what constitutes an effective board is a question that has been examined in past studies. The evidence is inconclusive.

Several board attributes have been examined. For instance, board size was of great interest for academics and they have looked much deeper than only large and small boards to examine the ideal number for an effective board. In addition, the separation of the executive roles of the board and the degree of independence of board members has been the subject of numerous studies. Other attributes of the board include, but are not limited to: board competence, board compensation, board meetings, and board committees.

In this research, I include all attributes for which I have access to data. In the first step, I take the ranking of the 92 largest Saudi listed companies on the corporate governance index 2015. Next, I examine which board characteristics lead to better corporate governance scores and performance. For example, do more board members contribute to an overall better corporate governance score? Are independent members better for the corporation, and so on?

I use the following model to investigate the relation between the overall corporate governance score and the board characteristics and composition:

$$\begin{aligned} CG\ Score = \beta_0 + \beta_1\ NBM + \beta_2\ NIM + \beta_3 Executives + \beta_4 block - holders + \beta_5\ Gov.ownership \\ + \beta_6\ Board\ meetings + \beta_7\ Committees + \beta_8\ Gov.representative + \varepsilon \end{aligned} \quad (1)$$

The CG Score is the overall score the company gets on the index for the 92 Saudi listed corporations. For the full list of the index, see Table 1.

The first independent variable is the number of board members (NBM). The issue of the number of board members was a subject of a lot of research. Scholars claim that seven is the best number for an effective board. I control for the board size by dividing the number of board members by the maximum number authorized by the Saudi Capital Market Authority (CMA). The Saudi CMA requires that the boards of all companies have to be between 3 and 11 members. Hassan et al. (2017) and Aktan et al. (2018) find that the board size is positively linked with firm performance as measured by the ROA. Therefore, I include this variable to capture the board's size effect on governance quality.

The second independent variable is the number of independent members (NIM) on the board. Researchers have argued that it is vital for boards to have some independent members to guarantee that those members act in the best interests of the shareholders without any direct or indirect benefits. This is to avoid a conflict of interests. Independent members have strong incentives to monitor management and provide quality information (Al-Janadi, Rahman & Alazzani, 2016). The Saudi market authority defines independence as a member who does not have a link to the company or to the managers of the company that might stop him from doing the required job. Independence is the guarantee for the ability of the independent members to monitor the executive managers for the sake of the shareholders' benefit. Findings in the literature are mixed. For instance, Aktan et al. (2018), and Martin and Herrero (2018) find that the percentage of independent members are negatively associated with firm performance. On the contrary, Hassan et al. (2017) find a positive link between board independence and firm performance. Therefore, I include this variable to capture the effect of the independence of the boards in the overall corporate governance quality. The number of independent members is calculated as the ratio to the total number of board members. This is to control for variation in the number of independent members between companies.

Executives represents the number of executive members on the board. The capital market authority requires that the majority of board members should not have an executive role in the company. The authority tries to discourage large shareholders from appointing executive directors who might control the company and increase the information asymmetry between investors. Therefore, I include this variable to capture the board's executive role impact on governance quality. I control for this variable by taking it as a ratio to the total number of the board members.

Block-holders includes institutional investors and large investors. The CMA defines block-holders as anybody who holds more than 5% of the company's shares. I include the variable to capture possible effect. It is well known that block-holders usually have more power and influence on companies and are entitled to have representatives on the boards. La Porta, Lopez and Shleifer (1999) in a study of large corporations from 27 wealthy countries find that large owners in these corporations exert power over their cash flow rights mainly through participation in the management. In contrast, Peck (2004) finds that block-holders do not improve the corporate governance practices and that they do not hold their large ownership for a long time.

Government ownership shows whether companies with government ownership and representatives on the board have more effective boards. On one hand, government ownership contributes to better governance through assigning qualified and skilled directors. On the other hand, the agency theory suggests that concentrated ownership (government) is negative to the company because the government might try to control management and become involved in management decisions. Borisova et al. (2012) find that government ownership is negatively linked to governance quality in Europe. Therefore, I include government ownership to capture their effect on Saudi firms' governance quality.

Board meetings is the number of board meetings during the year, which is included to investigate whether more board meetings result in a more effective board. In addition, I add the number of committees established within the board to examine the effect on the board (the *Committees* variable).

Government representative variable is a dummy variable that takes one if the government has a stake in the company and zero otherwise. This variable shows whether government involvement in the management of the board yields better governance.

4. RESULTS

Table 3 shows the estimates for the corporate governance index and the board of directors' characteristics and composition. First, the size of the board is positively statistically significant indicating that a large board is associated with a better corporate governance score and ranking. I believe this is linked to the fact that large corporations with large boards tend to have a better ability to comply with corporate governance standards. Small firms seem to be burdened financially and suffer from a lack of understanding of corporate governance in general. In other words, corporate governance remains unknown to many managers in emerging markets.

Surprisingly, the number of independent members on the board is negatively associated with the overall corporate governance score. This means that the higher the number of an independent member on the board, the worse the compliance. It seems that a higher number of independent members does not necessarily mean increased compliance. The real meaning of independence could be an alternate interpretation. Not every reported independent member is necessarily independent. Although this is hard to prove, this interpretation is in line with Clarke (2007) who states that board independence does not mean corporate success. In addition, Martin and Herrero (2018) find a negative relation between independent board members and firms' governance performance. The researchers associate this with the lack of true independent members and/or the lack of business experience.

Executive members on the board are negatively linked to the score, although the results are insignificant throughout all models. This means that the higher the number of executives on the board, the worse the corporate governance score. This result is in line with the general agreement on corporate governance standards that the majority of board members should not have an executive role. In fact, it is recommended by the authorities for the board members to abstain from executive roles.

Block-holders, as anticipated, contribute significantly to a better corporate governance score. The more those block-holders own of the corporation, the better the company's compliance. This is because block-holders tend to have better skills, experience and power in influencing corporate decisions and performance. Block-holders also have the power to assign representative members to the board. This is in contrast to Peck (2004) who finds that block-holders do not play significant roles in improving the corporate governance practices.

Government ownership and government representation, which are the percentages of shares owned by the government through some of its investment arms and the government representation in the corporation, are positively linked to the corporate governance score. Government representation is statistically significant at the 5% level. This result is not surprising given that the government usually appoints members to represent the government interests in the corporation such as in SABIC Corp, the giant petrochemical company. The result, however, contradicts those of Al-Janadi et al. (2016) who find the negative impact of government ownership on firms' value. While my result confirms the positive impact of government ownership on governance quality, this should lead to better firm performance as well.

Finally, the number of meetings held by the boards during the fiscal year and the number of established committees show no association with corporate governance quality. One noteworthy observation is that most companies tend to establish only the required committees by the authority regulations, which might affect the result. In addition, the meetings do not show a big effect on governance quality. In other words, boards could meet less, but more effectively.

Table 3. Corporate governance score and board characteristics

Dependent Variable	***CGI score***					
Independent	***Univariate***	***Model 1***	***Model 2***	***Model 3***	***Model 4***	***Model 5***
Intercept		0.6238	0.6507	0.6588	0.6815	0.6083
Board size	0.1154*	0.1004	0.1365**			0.1223*
NIM	(0.1021)**	(-0.0976)*	(-0.1202)**			
Executives	-0.0076	-0.0041		-0.0025		-0.0043
Block owners	0.0155***	0.0124**		0.0156***		
Gov. ownership	0.0605	0.026		0.0586		0.0578
Meetings	0.0011	-0.0019			-0.001	
Committees	0.0061	-0.0028			0.0023	-0.0021
Gov. representation	0.0503**	0.0274			0.0404**	
f-Stat		2.0206	0.0195	3.7109	2.2278	1.6047
Adj-R2		0.0736	0.0649	0.0829	0.0392	0.0262

Note: This table shows the link between the corporate governance score and board characteristics. Board size is the number of board members divided by the maximum number of board members set by the CMA to control for firms' size. NIM is the number of independent members in the board. Executives is the number of executive members in the board relative to the board size. Block-owners is the number of owners holding more than 5% in the company. Gov. ownership represents the percentage of shares held by the government. Meetings is the number of meetings conducted by the board during the fiscal year. Committees is the number of committees established by the board. Gov. Representation is a dummy variable takes on 1 if the government owns in the company and zero otherwise. The first column shows the univariate association between the governance score and each independent variable. Other models 1-5 show several combinations of the model.

5. DISCUSSION AND IMPLICATIONS

The findings add to our knowledge of the impact of the composition of the board of directors on firms' compliance with regulations. It seems that large corporations have better capabilities to comply with regulatory standards and principles. Noteworthy, large corporations tend to show better governance scores.

The results reveal that there is a statistically significant positive relation between the board size and the corporate governance quality. This result implies that companies with large boards achieve better governance quality. This finding is consistent with previous research on board composition (see among others Al-Sahafi et al., 2015; Dalton & Dalton, 2005). The result is supported theoretically by the view that large boards are more capable of carrying out the board's duties and establishing effective committees (Adam & Mehran, 2003).

The ownership concentration variables (government ownership and block-holders) are positively related to governance quality, but government ownership is insignificant. It is argued in the literature that large ownership should lead to decreased agency costs and consequently, better financial performance. The findings in this paper are consistent with this view as ownership concentration shows better governance quality. In addition, ownership concentration and better governance quality can be observed from the point of view that block-holders are more capable of monitoring managers (Florackis, 2008).

Surprisingly, the independence of the board shows a significant negative relation with governance quality. This result contradicts the agency theory, which states that the degree of a board's independence should lead to better governance and firm performance. Several papers document a positive relation between a board's independence and firm performance, including a study on Saudi banks by Al-Sahafi et al. (2015). Nevertheless, the results in the present study suggest the opposite: A large number of independent members on the board contribute negatively to the quality of governance. My interpretation is that in Saudi Arabia, many corporations report members as independent, while they are not necessarily independent. In other words, firms attempt to satisfy the regularity requirements by having majority independent members.

Furthermore, government representation in the corporation shows a significant positive impact on the governance quality. This means that companies with government ownership and representatives on the board have better governance than companies without government ownership. This result is to be expected as government institutional arms are more informed and experienced in picking successful companies. Finally, executive members on the board show a negative relation with governance quality. Although the relation is not statistically significant, it is in line with the theory of separation of ownership and control. The number of meetings held by the board during the year and the number of established committees within the board do not show an association with governance quality.

6. CONCLUSION

This paper investigated the link between the overall corporate governance score and the board of directors' characteristics. I use the corporate governance index developed by the Corporate Governance Centre for the 92 largest companies listed on the Saudi Stock market Tadawul in 2015 and regress several board variables.

I find that board size matters for an effective board. In other words, a large board has a better overall corporate governance score than small boards. Moreover, the results show that a large government or block-holder ownership has a positive impact on the governance score. Furthermore, executive members seem to have a negative impact on the governance score, although the evidence is insignificant.

Surprisingly, independent members have a negative association with the corporate governance score. Corporations with more independent members on the board have a worse governance score than corporations with fewer independent members. However, this result is in line with previous studies that show similar findings. It seems that independence by itself as a topic requires more research and investigation.

Finally, other variables, such as the number of established committees and the number of meetings held by the board during the fiscal year, show no significant relation with the governance score. Those two variables likely require much deeper investigation to uncover their impact.

Nevertheless, the paper has some limitations. First, it addresses some board characteristics, such as size and independence, but not all. There are many more board characteristics, and they require much confidential non-publicly available data. In general, this is a big challenge of board research. Second, the paper examines only one year (2015), a short time frame. Finally, the sample size is quite small. Future research should investigate a longer time frame by examining the link between the board's characteristics and governance quality over time. The issue of board compensations should be examined once data become available. Perhaps case study analysis of the impact of the board composition and the relation to corporate governance is needed.

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