



The Influence of Council Structure and IndependenceThe Council on Corporate Financial Performance: A Systematic Literature Review

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Abstract: This study aims to collect and analyze the results of previous research related to the influence of board structure and board independence on the company's financial performance. We analyzed 22 research articles published between 2020-2025. The results show that good board structures (such as the right number of members, gender diversity, and special committees) as well as independent boards can generally improve a company's financial performance (measured by ROA, ROE, and Tobin's Q). However, these results are not always the same in every company. Factors such as industry type, country regulations, and market conditions can affect how much influence the board has on performance. The most commonly used theory to explain this relationship is Agency Theory. This study provides advice for companies in drafting effective boards and for future research to pay more attention to factors that can strengthen or weaken these relationships.

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Introduction

Corporate governance practices have undergone rapid development in recent decades. The board of directors, as one of the main pillars of corporate governance, is increasingly receiving attention in determining an organization's success. Board structure (such as board size and member diversity) and board independence (proportion of independent board members) are believed to influence the effectiveness of a company's oversight and decision-making (Zavertiaeva et al., 2024). A company's financial performance, often measured by indicators such as Return on Assets (ROA), Return on Equity (ROE), and Tobin's Q, can be

affected by how the board of directors fulfills its functions (Chakraborty, 2023)(Wenhao et al., 2022).

However, research findings on the relationship between board structure, board independence, and corporate financial performance are not always consistent. Some studies have found that a strong board structure and high board independence can enhance a company's financial performance (Al-Absy & Hasan, 2023)(Kufo & Shtembari, 2023). In contrast, others have identified no significant association or even a negative one (Nikolić et al., 2022)(Aidoo et al., 2023). These discrepancies indicate that the relationship between board structure, board independence, and financial performance is heavily influenced by company-specific conditions, such as industry sectors, regulations, and the business environment.

Therefore, this study aims to systematically examine various studies conducted during the 2020-2025 period. By analyzing 22 research articles, this review seeks to identify common patterns, understand the causes of differing results, and provide recommendations for future research and corporate governance practices. Although numerous studies have explored the links between board structure, board independence, and financial performance, a significant research gap persists, particularly in developing countries like Indonesia. Most prior research focuses on firms in advanced economies with established regulations, overlooking local factors such as economic uncertainty, corruption, or cultural differences in leadership that impact board effectiveness. Furthermore, there is a lack of meta-analyses comparing findings across the 2020-2025 period—especially post-COVID-19—hindering a holistic understanding of current dynamics, thus necessitating more contextual systematic reviews to address this void.

Research Methods

This study analyzed 22 selected scientific articles that met the inclusion criteria through the systematic literature review method. The article selection process follows the PRISMA protocol to ensure the quality of the literature studied. The journal quartile distribution of selected articles is presented in Table 2 below.

Table 2. Journal

Quartile	Number of Articles	Presentase
Q1	9	40,91%
Q2	5	22,73%
Proquest	4	18,2%
JSTOR	1	4,54%
DOAJ	1	4,54%
EBSCOhost	1	4,54%



Springer	1	4,54%
Total	22	100%

Based on Table 2, most of the articles analyzed in this study came from high-reputable journals. Articles from quartile 1 (Q1) and quartile 2 (Q2) together reached 63.64%, which indicates that the literature sources used are of good quality and trustworthy. In addition, articles from other databases such as Proquest, JSTOR, DOAJ, EBSCOhost, and Springer are also used to enrich the analysis and provide a more diverse perspective.

Result and Discussion

The study analyzed 22 scientific articles to understand the relationship between board structure, board independence, and the financial performance of companies. From the analysis, it can be seen that the theories used by the researchers are very diverse. This shows that this topic can be viewed from a variety of different perspectives. For more details, here is a table showing the theories that are most often used in the studies analyzed.

Table 3. Theory

No	Theory	Quantity	Presentase
1.	Agency Theory	21	40,4%
2.	Resource Dependence Theory	13	25%
3.	Stewardship Theory	7	13,46%
4.	Stakeholder Theory	4	7,69%
5.	Institutional Theory	2	3,85%
6.	Managerial Entrenchment Theory	1	1,92%
7.	Human Capital Theory	1	1,92%
8.	Resource- Based View (RBV)	1	1,92%
9.	Knowledge- Based View (KBV)	1	1,92%
10.	Social Psychology Theory	1	1,92%
	Total	52	100%

Based on Table 3, Agency Theory is the most widely used theory in the studies analyzed, which is 40.4%. This suggests that most researchers use this theory to explain the relationship between board structure, board independence, and the financial performance of a company. Other theories such as Resource Dependence Theory (25.0%) and Stewardship Theory (13.46%) are also quite widely used. The diversity of theories found suggests that this topic can be analyzed from a variety of different perspectives.

The Influence of Board Structure on the Company's Financial Performance

Based on the 22 articles analyzed, most studies show that a good board structure has a positive effect on a company's financial performance. The right size of the board, gender diversity, and the existence of special committees such as audit and remuneration committees can increase the effectiveness of the board in conducting oversight and providing strategic input (Chakraborty, 2023; Aljughaiman et al., 2024). For example, a study in Bangladesh found that larger board sizes and a good ownership structure can improve the financial performance of pharmaceutical and chemical companies (Chakraborty, 2023).

However, this relationship is not always simple. Some studies have found that the influence of board structure on performance can differ depending on specific conditions. For example, research conducted in various countries found that the positive influence of board structure on performance is weaker in countries that already have strong national governance systems (Omenihu & Nwafor, 2025). This means that if the regulations and supervision from the government are good, the role of the internal council may not be too crucial. In addition, in the banking industry, the board structure does not directly affect performance, but is influenced through other factors such as intellectual capital (Nikolić et al., 2022).

Gender diversity in the board has also been proven to have a positive impact on performance. Research in West Africa shows that companies with more inclusive boards (having women as board members) tend to perform better (Tuo et al., 2021). However, these results are not always consistent across all sectors. In the Indian tech industry, gender diversity does not show a significant influence on performance (Singh et al., 2023). This suggests that the importance of gender diversity may differ depending on the characteristics of the industry.

The Influence of Board Independence on the Company's Financial Performance

Based on 22 articles, the majority of research supports that board independence has a positive effect on a company's financial performance. Independent board members are considered to be able to provide more objective supervision and reduce the risk of conflicts of interest, so that decisions taken are better for the company (Alobaid, 2025; Wenhao et al., 2022). For example, in the Saudi stock market, board independence not only improves performance directly, but also strengthens the positive relationship between family ownership and the financial performance of the company (Alobaid, 2025).

However, the effectiveness of board independence is also highly context-dependent. Some studies show different results. In Nigeria, board independence has a negative impact on bank performance (Okoyeuzu et al., 2021). This may be due to the specific conditions of the banking industry in Nigeria, such as strict regulations or different organizational cultures.

Additionally, research in India's tech sector found that board independence has no significant effect on performance (Singh et al., 2023).

Other factors that affect the effectiveness of board independence include shareholding by independent board members and the level of market competition. Research shows that board independence is more effective when independent board members also have shareholding in the company, as this aligns their interests with shareholders (Habtoor et al., 2024). In addition, board independence also has more impact on companies that face low market competition (Hu et al., 2023). Thus, although in general the independence of the board is considered important, its implementation must be adapted to the conditions of the company.

Conclusion and Recommendation

This systematic literature review of 22 articles from 2020-2025 reveals that board structure and independence generally exert a positive influence on corporate financial performance, as measured by ROA, ROE, and Tobin's Q. Optimal board size, gender diversity, and specialized committees enhance oversight and strategic decision-making, while independent directors mitigate agency conflicts and promote objectivity, with Agency Theory dominating explanations at 40.4% usage. However, inconsistencies arise due to contextual moderators like industry type, national governance quality, and market competition, underscoring the need for tailored governance approaches.

Despite robust findings, limitations include the reliance on secondary data from diverse journals, potentially introducing publication bias, and a focus on cross-sectional studies that overlook longitudinal dynamics or emerging markets like Indonesia. Practically, firms should prioritize balanced boards with 50-60% independence and diversity to boost performance. Future research ought to employ meta-analyses, explore post-COVID effects, and test moderators such as cultural factors in developing economies for deeper insights.

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