IMPACT OF ISOMORPHISM IN BOARD SIZE ON FIRM PERFORMANCE VIS-À-VIS INSTITUTIONAL THEORY

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Abstract: This study aims to investigate the Impact of isomorphism in board size on firm performance. Specifically, this study has taken the base of institutional theory. Main question is addressed: what is the impact of isomorphism in board size on firm performance. Descriptive statistics and ANOVA has been used in our study to see the impact of independent variable on dependent variable for the period of 2010-2011 to 2016-2017. Independent variable in our study is isomorphism in board size. Firm performance has been measured by using the accounting profitability measure- ROA. The study has converted the whole data on board size into categorical data. It can be said that there exist negative and insignificant impact of isomorphism in board size on firm performance. The study adds value to the literature of corporate governance by focusing on paramount variable in the companies i.e. board size. The study also adds the value to the institutional theory by taking it as a base to the impact of isomorphism in board size on firm performance.

Index Terms - Institutional theory, board size, firm performance, corporate governance and Fast Moving Consumables Goods Companies.

1. Corporate Governance

Corporate Governance can be defined in two ways. Firstly, in narrow sense, corporate governance contains relationship between management of the company, board members, its shareholders and stakeholders. This relationship sets the objectives of the company and ways of attaining of these objectives are determined. Thus, corporate governance mainly focuses on transparency of company policies and accountability of board members towards stakeholders especially shareholders.

Secondly, in broader sense, corporate governance refers to the code of conduct for directing and controlling the business with honesty, integrity, consistency in an economy which would be helpful for increasing market confidence, growth and development of an industrial sector economy and overall development of countries' wealth.

The aim of the corporate governance is to enhance the sustainable growth of business, shareholder's wealth by enhancing economic performance of the firm. The term firm performance mainly refers to the value of the firm.

2. Corporate Governance and Institutional Theory

The field of 'Corporate governance' contains different theories like agency theory (Mangel & Singh, 1993), stewardship theory (Donaldson & Davis, 1991, 1994 and Fox & Hamilton, 1994), managerial hegemony (Mace, 1971), resource dependence theory (Pfeffer, 1972, 1982 and Useem, 1980), stakeholder theory (Donaldson & Preston,1995) and one of them is institutional theory (Hossain & Hammami, 2009). Institutional theory suggests that firms in order to gain shareholders' confidence and legitimacy in the market, it incorporates practices in their conduct (Scott, 1987). This theory mainly deals with the showcasing the way of responding behaviour of an organisation to the market pressure, institutional pressure and actions to the competitive organisations (Chizema and Buck, 2006). Institutional theory is capable for providing strong theoretical base for considering numerous issues that is why it is acceptable at international, national and firm level management (Dacin, Goodstein, and Scott 2002).

3. Board Size definition:

One of the important elements of internal corporate governance practices is board of the company. The board of directors makes the internal governance system of the organisation which is responsible for the decisions of the organisation (Fama, 1980). Board members act as the device that controls the whole system of the organisation (Hermalin & Weisbach, 1991). The size of the board indicate how many board directors are there in the board (Aggarwal, Schloetzer & Williamson, 2016). The size of the board directly impacts its functioning and monitoring capacity. So the company ought to comprise reasonable number of directors.

4. Literature review on Board Size and firm performance:

Kota and Tomar (2010) outlined that small board size is better for an organisation. Jensen (1993) extended this concept by explaining that if there is large board size then there will be less efficient board. He also added that if board size is increased beyond 7 or 8 then it becomes the problem for a CEO to control the board. The reason behind to this problem is that as more and more board size increases then board becomes less and less part of a management process (Dalton, Daily, Ellstrand & Johnson 1999). Mak & Kusnadi (2005) viewed that there is negative relationship between board size and firm performance. Zabri, Ahmad and Wah (2016) concluded that there was inverse relationship between board size and return on asset & return on equity implying that large board size lowering down the ROA & ROE of the firm. I.S.I.K. and Ince (2016) concluded that board size was significantly & positively associated with financial performance of Turkish banks. Kumar and Singh (2013) found that board size was negatively related with firm value caused by lack of coordination & communication in the board.

Above discussion shows that board size may have positive or negative impact on the firm performance. To the very great extent, literatures chiefly anticipate that board size has the insignificant impact on the firm performance which leads to our hypothesis.

Hypothesis: - There is an insignificant impact of isomorphism in board size on firm performance.

5. Theoretical Framework

Institutional theory argues that there is a institutional pressure on firms to be isomorphic to other competitive firms. Firms need legitimacy in the eyes of shareholders so they go for similar practices. According to present study, institutional theory points out for board size that companies tends to adopt similar practices for number of board members. So institutional theory gives the concept of isomorphism and institutional pressure.

a) Isomorphism

DiMaggio and Powell (1983) suggested that isomorphism is a process whereby one firm seem like the other firm due to qualities in common. In other words, isomorphism means companies tend to incorporate certain practices in themselves by imitating the other companies. Institutional theory gives the management an institutional perspective, specifically giving attention to homogenous practices drawn from the isomorphism and institutional pressure (DiMaggio and Powell 1983; Meyer 1977; Scott 1995). Precisely, this theory argues that companies are under pressure to become isomorphic to other companies. Along with that, institutional theory points that companies go for certain business practices as adopted by the other successful companies. Misani (2010) found that social pressure forces the firms to adopt set standard of corporate practices. If they try to adopt new way then firm is forced by stakeholders to adopt passive and imitative behaviour.

b) Institutional Pressure

This theory presupposes that companies cannot exercise their own discretion for any course of action as they are under pressure of institutions i.e. pressures from general social expectations and the actions of competitive firms (Chizema and Buck, 2006). DiMaggio and Powell (1991) suggested that companies have no option to do whatever they want to do but they have to observe with shared belief and norms. Institutional pressure makes the firms' behaviour in the form of homogenous practices. Some studies looked the institutional pressure from the other perspective that it directs the firms to adopt new practices to improve upon their economic efficiency (Oliver 1992; Paauwe 2004; Paauwe and Farndale 2007).

Consolidated list of studies for the independent variable used in brief

Name of Variables	Studies referred	Definition
Board Size	Aggarwal, Schloetzer& Williamson (2016), Gandia (2008), Reddy and Sharma (2012), Salim, Arjomandi and Seufert (2016), Singh & Delios (2016), and Turrent & Ariza (2016).	Size of board refers to the number of directors on the board. The size of the board directly impacts its functioning and monitoring capacity. So the company ought to comprise reasonable number of directors.

Consolidated list of studies for the dependent variable used in brief

Name of Variables	Included in following papers	Definition
Return on Assets	Abdallah and Ismail (2016), Chauhan, Lakshmi and Dey (2016) and Reddy and Sharma (2012)	It is regarded as an accounting based measure and is considered as a backward looking approach (Demsetz and Villalonga, 2001)

6. Research Methodology

It has checked the impact of isomorphism in board size on firm performance (return on assets) with the help of categorical data. It has been tested with descriptive statistics and n-way ANOVA. ANOVA depicts about the difference in mean of two or more groups in repeated measures.

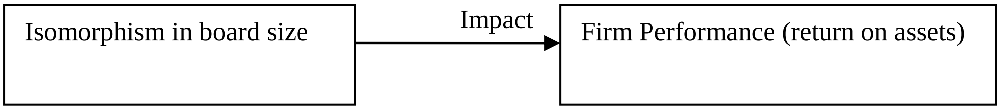

Figure: Indicating that isomorphism in board size has an impact on firm performance

(*Source:* The author)

7. **Scope of the study**

The study has limit the analysis for 54 selected Fast Moving Consumables goods companies listed in BSE index for the period of past seven years i.e. 2010-11 to 2016-2017.

8. Sampling Design

The study has considered the data from 54 selected Fast Moving Consumables goods companies listed in BSE index. As index is a barometer of the market, so the companies selected out of index would better represent the market. BSE has the distinction of being oldest stock exchange in Asia, established in 1875.

9. Index Construction and measurement of the variables

Process of index construction helps us in analysing the data. Babbie (2004) suggested that index settle down the whole data into single numerical score of a measuring variable. These variables have been converted into categorical variables due to the availability of broad range of data on board size.

Table: *Index Construction*

Board Size
1-8 members = 0
9-11 members = 1
12 or more than 12 members = 2

- **Board Size**
  It will be measured as:
  1-8 members of the board then board will be taken as = 0, 9-11 members of the board then board will be taken as = 1, and or more than 12 members of the board then board will be taken as = 2.

Correlation

		ROA	Board Size
ROA	Pearson Correlation	1	-.071
	p-value		.609
Board Size	Pearson Correlation	-.071	1
	p-value	.609	

Above correlation table shows relationship between ROA and Board Size. Board size and ROA has negative and insignificant correlation (-0.071, p=.609).

Descriptive analysis of board size and their relationship with firm performance

The results of the t-test analysis through SPSS for testing the significance of difference of each institutional factor and firm performance are explained below.

Table: Results of descriptive statistics of board size with regard to firm performance in the form of ROA

Board Size

Descriptives								
ROA								
	N	Mean	Std. Deviation	Std. Error	95% C.I. for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
1-8	209	94.01	190.44	13.17	68.04	119.98	-9.08	1404.25
9-11	114	70.28	151.69	14.21	42.13	98.43	-12.23	1119.07
>11	55	44.29	45.19	6.09	32.07	56.51	-7.17	215.16
Total	378	79.62	165.90	8.53	62.84	96.40	-12.23	1404.25

Based on estimated marginal means

a. The mean difference is significant at the 0.05 level.

b. Adjustment for multiple comparisons; Least Significant Difference (equivalent to no adjustments).

The above table depicts the mean value and standard deviation for board size of different index categories. Observing the table it is referred that highest mean value 94.01 of board size is from 1-8 category, 9-11category has 70.28 mean value and more than 11 has 44.29 mean value. Its mean value is shown in bar graph as below:

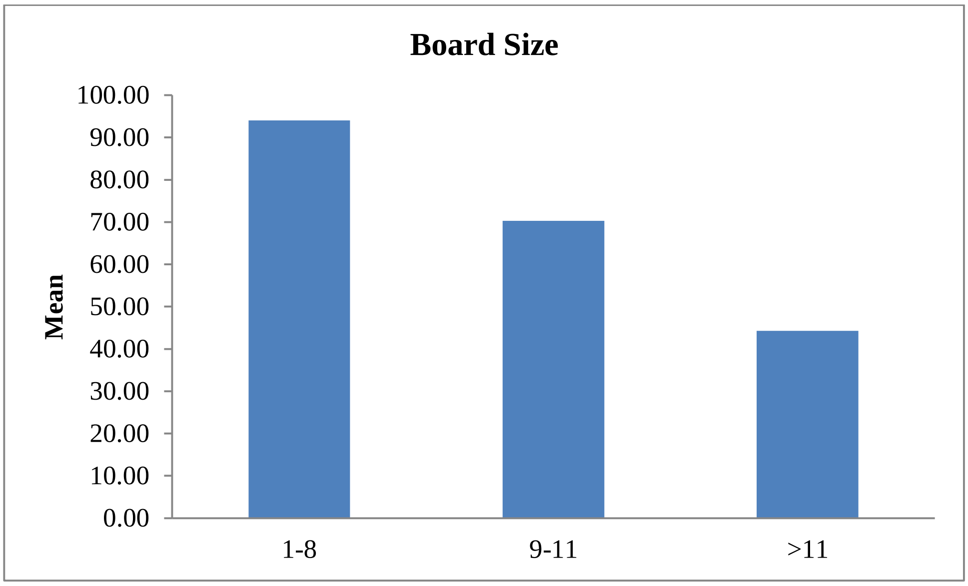

Figure: Bar graph showing the mean values of board size

Table: ANOVA analysis of Isomorphism in board size

ANOVA depicts about the difference in mean of two or more groups in repeated measures. Following tables present the results of ANOVA for board size of the study.

ANOVA					
ROA					
	Sum of Squares	df	Mean Square	F-value	p-value
Between Groups	121856.130	2	60928.065	2.228	.109
Within Groups	10254081.560	375	27344.217		
Total	10375937.690	377			

The above table shows the output of the ANOVA analysis and whether there is a statistically significant difference between our group means. We can see that value of p = 0.109, which is more than 0.05. Therefore, there is no statistically significant difference in the board size in different index categories. Thus, **hypothesis H1 is supported.** So it refers that there is an insignificant relationship between isomorphism in board size and firm performance.

10. Conclusion

From above discussion it can be said that there exist insignificant impact of isomorphism in board size and firm performance. Results support the view that there is a negative and insignificant relationship between these two variables. The findings of this study give support to the fact that firms do not incorporate isomorphic practices in board size to gain legitimacy.

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