EPH-International Journal of Business & Management Science

THE EFFECTIVENESS OF INDEPENDENT DIRECTORS IN STRENGTHENING CORPORATE GOVERNANCE: A LITERATURE REVIEW

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Article History
Received: *2026-05-19*
Revised: *2026-08-28*
Accepted: *2026-11-07*
Published: *2026-11-26*

Abstract
This study reviews the role of independent directors in strengthening corporate governance, with a particular focus on their independence and effectiveness. The research adopts a qualitative methodology based on an extensive review of existing literature, including peer-reviewed journal articles, corporate governance frameworks, regulatory reports, and prior empirical studies. Through a systematic literature review approach, the study synthesizes both domestic and international research to identify the key determinants and measures of independent directors' performance and autonomy.The study also examines the interaction of independent directors with other governance mechanisms, including external auditing, managerial accountability, and shareholder protection. The findings from the reviewed literature suggest that independent directors play a crucial role in monitoring management, mitigating agency conflicts, enhancing transparency, and improving governance outcomes. However, evidence regarding their impact on firm performance remains mixed due to contextual and methodological differences across studies.The expected outcome is to provide a comprehensive understanding of the factors influencing independent directors' effectiveness and independence, while identifying research gaps and directions for future empirical studies, particularly in emerging economies.

Keywords: *Independent Directors, Corporate Governance, Board Independence, Board Effectiveness, Agency Theory, Corporate Monitoring.*

Vol. 12 Issue 11 (November 2026)
ISSN: 2208-2190 Pages-108-113
DOI: https://doi.org/10.69023/pmy5ty34

1. Introduction

One of the most important aspects of changing the management aspect of Chinese listed firms is the full implementation of the independent director framework. It also provides us with the chance to examine whether the board's independence affects how the business is run.

According to Fama and Jensen (1983), the independent director framework has long been seen as one of the most important tools for resolving organisational disputes between supervisors and shareholders.

In any event, many researchers agree that the independent directors' voting rights are like elastic stamps and that they will typically not attend the board assembly because the majority of independent leaders are used by the administration and because there is an information asymmetry between the administration and the free leaders. The actions of management cast doubt on the idea that independent CEOs can actually perform a supervisory role.

A independent director's soul is freedom, which shapes the role of independent directors. This research identifies the indicators of effectiveness—capital occupation and profit quality—as well as the indicators of independence—the divergent findings of independent executives—through the analysis of domestic and external literary works.

2. Research Methodology

This study examines the function, efficacy, and independence of independent directors in corporate governance using a qualitative research design and a thorough literature analysis. To investigate the theoretical and empirical underpinnings of independent directors' contributions, secondary data sources such as regulatory reports, peer-reviewed academic publications, and corporate governance frameworks were examined. In order to evaluate differences in board independence and monitoring procedures, the research focusses on comparative analysis across various markets. Important efficacy metrics, such capital occupation and profits quality, as well as independence metrics, like independent directors' disagreeing views, were found and assessed. The study also looks at how independent directors interact with governance tools like external auditing, managerial accountability, and shareholder rights. Although this method offers insightful information, it has drawbacks, such as the requirement for empirical confirmation using firm-level data and possible biases in earlier studies. However, the results advance our knowledge of how independent directors might improve the efficacy of corporate governance.

3. The Development of the Framework for Independent Directors

The president of the company basically chooses the directors rather than the shareholders, suggesting that executives speak with the president rather than the shareholders, according to Mace's (1971) study of official and independent directors of major US firms. As a result, directors are unable to voice administrative concerns or contest administrative decisions. In Canada, the Lawrence Commission Report emphasises how crucial independent directors are to the advancement of the business's operations. Tricker agrees that the issue of having too many official directors must be resolved by the UK's board of directors. To better balance the knowledge of management with the independence and objectivity of independent directors, the board should be run by independent directors.

The board may need to make this adjustment in order to make the right decisions. The renowned administrative prodigy Dwindle Drucker [3] acknowledges that the administration has replaced the board of directors' role in the company's advancement. According to Drucker, the division of managerial and ownership roles of sophisticated businesses, the intricacy of cutting-edge business processes, and the challenge of finding qualified individuals willing to invest time and effort as directors are the three main causes of the decline in board participation. According to Jensen (1993), a successful board organisation should maintain a smaller board size, with the CEO serving as the "inside leader" and the other directors being outside leaders.

The 1993 listing of "Tsingtao Brewery" on the exchange in Hong Kong set a standard for the representation of independent directors in Chinese listed companies.Subsequently, listed businesses successfully included independent directors on their boards. The "Guidelines for the Posting of Listed Companies" were released by the China Securities Regulatory Commission in December 1997. The China Securities Regulatory Commission and the former State Economic and Trade Commission released their "Opinions on Assist Advancing the Standardised Operation and Developing Change of Abroad Listed Companies" on March 29, 1999. The independent director structure could be mentioned. The China Securities Regulatory Commission's publication of the "Guiding Conclusions on Building up an Independent Director Framework in Listed Companies" in Eminent 2001 officially recognised the full implementation of an independent director

Vol. 12 Issue 11 (November 2026)
ISSN: 2208-2190 Pages-108-113
DOI: https://doi.org/10.69023/pmy5ty34

structure in domestic listed businesses. Furthermore, the framework for independent directors was specifically outlined in the January 2002 "Guidelines for the Administration of Listed Companies."

4. The Independence of Directors

The independent director structure is thought to be centred around freedom. "Independence" lies at the core of the independent director framework's necessity and effective operation. In order to gauge the autonomy of independent directors, the early writing essentially used the number of independent directors on the board of directors as a surrogate variable. (Weisbach, 1988 [5]; Bhagat and Black, 2002 [6]; Cotter et al., 1997 [4]) According to Songlian Tang and Yiming Hu investigation into the relationship between independent directors and the calibre of profit data of listed companies, listed companies had significantly better profit data, and independent directors with a background in finance or bookkeeping made up a comparatively large percentage of the board of directors.

Over time, the level of independence of independent directors has gradually evolved. In order to reach their precise conclusions and cast their votes on the board of directors, Jigao Zhu and Kangtao Ye used data on independent directors of Chinese listed companies. They looked at the autonomy of independent directors from administration and their supervisory role. They discovered that, generally speaking, independent directors would not openly address management's behaviour; however, when the company's execution is poor, they are more likely to do so directly; additionally, the more reputable the company is, the more budgetary the foundation is, and the more recently appointed chairman is likely to address administration decisions. In order to elucidate their findings and cast votes on the board of directors, Haijian Zeng and Quanxi Liang employed the special independent directors of Chinese listed companies to investigate the effect of independent executives' autonomy on administration on the risk of stock price collapse. There is a serious chance that the share price of the company with the independent director will drop if a company that rejects this idea does not have one.In order to clarify their findings and cast their votes on the board of directors, Haijian Zeng and Quanxi Liang used the special independent directors of Chinese listed businesses. They also examined the impact of independent executives' autonomy on administration on the risk of stock price collapse. If a corporation that disagrees with this concept does not have an independent director, there is a significant risk that the share price of the organisation may plummet.

In addition to focussing on the supervisory aspect of independent independence, there is also literature that explores the relationship between independent directors and internal and external stakeholders. Changwen Zhao looks into the possibility of independent directors having a more active role in corporate management in family enterprises. The interplay between the independent director framework and various corporate governance frameworks within the organisation was also examined by Zhigang Zheng and Xiuhua Lu. They came to the conclusion that there is an elective relationship between the governance component of the security of speculator control and value checks and equalisations, and that the administration impacts of the independence of the board of executives and the governance mechanisms of major shareholder supervision and administration compensation motivating forces are generally strengthening (complementary).

The administration impact of changes to the legal environment and equity checks and equalisations will be somewhat weakened by the use of China's independent director system, but it will advance the governance impact of significant shareholder supervision and administration compensation motives. The effects of the board of directors' independence on corporate administration are not direct; rather, they are indirectly felt through interactions with other governance elements. From the perspective of the accounting professional foundation, Xi Wu, Chunfei Wang, and Zhengfei Lu investigated the three modes of the company's independent executives and assessors. The main point of the "same door" concept is that the corporation hires employees from the chief review firm to operate as independent directors. The independent director and the reviewer participate at a higher degree under this demonstration, but its independence deteriorates. The moment demonstrates that the business uses former employees as independent directors ("pre-peer" show). The degree of engagement is also high, and the freedom of the independent director and critic is completely enhanced beneath this performance. The third method, referred to as the "peer" approach, is when the business appoints an independent director who works for the business but is not connected to the main audit firm.

It puts the auditor's competitiveness at risk, which could lower their motivation and influence over the client's oversight. Three different models have different effects on the independence of independent directors. At the same time, Zhi Wang and Rui Chen discussed the implications of independent directors' perspectives. The study found that the "reverse elimination" effect is fairly strong and that the group of public companies with independent directors had a significantly higher chance of terminating them. Furthermore, its replacement lacks independence and has a bad reputation. The proportion of independent directors who later became

Vol. 12 Issue 11 (November 2026)
ISSN: 2208-2190 Pages-108-113
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independent directors of other companies was significantly lower than that of independent directors who were unemployed.
Due to a lack of understanding regarding the actual decision-making process of the board of directors, a number of studies examine whether the independent director system may alleviate agency difficulties by examining the direct correlation between the proportion of independent directors and economic success. However, because the percentage of independent directors and corporate governance agent variables are likely related to missing variables, this study approach is susceptible to serious endogenous problems (Hermalin and Weisbach, 2003 [7]). In addition, Pettigrew (1992) [8] pointed out that without concrete proof of the board of directors' decision-making process, it is simple to draw irrational conclusions if researchers look directly at the connection between the success of the company and the proportion of independent directors. This study uses the research opportunities provided by China's unique mandatory disclosure data (i.e., the opinions and voting outcomes of the independent directors on the board's resolutions) to measure the independence of the re-elected directors by re-electing the independent directors' objections.

5. The Efficiency of Independent Directors

Fama and Jensen provide detailed theoretical explanations for corporate ownership and control (1983). They pointed out that granting managers and the board of directors decision-making ability can help to settle agency challenges. However, if the manager also has power over the board, they can work together to exploit the dispersed stockholders. Independent directors join the board of directors and act as supervisors to stop management from acting against the interests of shareholders.
The majority of the existing study focusses on the governance function of independent directors from the two responsibilities of supervision and consultation. Whether or not adding independent directors can effectively protect investors' interests and improve the company's performance has long been one of the most popular research topics for scholars studying corporate governance. However, the current investigation has not produced a unanimous finding. Some studies have found a strong positive relationship between the company's success and the proportion of independent directors on the board of directors (e.g., Brickley et al., 1994 [9]; Peng, 2004 [10]). However, some studies have found no positive correlation between the two (e.g., Adam and Ferreira, 2007 [11]).
In order to reduce the agency costs between management and shareholders, Adams et al. (2010) [12] state that the supervisory role of independent directors is primarily observed in the selection, evaluation, and termination of management. Weisbach (1988) found that independent directors can enhance the relationship between CEO turnover and firm success and remove incompetent CEOs. Core et al. (1999) [13] assert that independent directors can prevent CEOs from receiving excessive compensation. These documents, however, are based on developed markets and address the first type of agency problem (the conflict between management and shareholders) when the research perspective turns to the second type of agency issues (the conflict of interest across major shareholders and minority shareholders).
Following the leading emerging market nations (such as China), independent directors' primary responsibility is to monitor and prevent the encroachment of major shareholders on minority shareholders. Dewu Zhao used factor analysis and path analysis to empirically confirm the strong beneficial effect of independent directors' supervisory authority on earnings robustness. Certain documents use corporate infractions to gauge the independent directors' supervision function. Chunmei Zheng discovered that there is a significant likelihood of violations by the corporation and frequent absences of independent directors; the company is more likely to break the regulations if independent directors oppose it while they are in office.
Research has looked more closely at the connection between independent directors' personal traits and business performance because of the differences in their backgrounds. These studies primarily come from the following perspectives: tenure and network location, concurrently holding director positions in other companies, education and work background (Rosenstein and Wyatt, 1990 [14]; Fich, 2005 [15]), gender (Adams and Ferreira, 2009), and the effects of accounting professionals as independent directors (DeFond et al., 2005 [16]). A number of studies on the function of independent directors in the backdrop of administrative officials have also been conducted concurrently with the "resignation tide" of China's official directors. These investigations generally imply that the independent directors' oversight of officials' backgrounds is inadequate.
A portion of the literature primarily uses the supervisory path to explain the independent system's efficacy. The advice process for the independent director system's efficacy is examined in another section of the literature. The majority of independent directors support the consulting function, which entails using professional skills to offer recommendations for project selection and firm strategy creation, per a poll conducted by Demb & Neubauer (1992) [17]. According to Adams & Ferreira (2007), understanding the

Vol. 12 Issue 11 (November 2026)
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actual state of the business is the foundation of independent director supervision. Management will be reluctant to provide internal information if they have too much autonomy, which will hinder the consultation process (Coles et al. (2008) [18]). The number of independent directors will increase with the complexity of the company's operations. The bank's independent directors served as the study subject for Hao Liu and Song Tang. The empirical test showed that the advice function of the independent directors with bank backgrounds was more obvious and the enterprise's credit financing was improved, but even when compared to other directors, the monitoring function was not clearly stated. weak. Liu Chun et al. recognised the market segmentation characteristics of local protectionism in China and found that the use of local social networks to remove barriers to mergers and acquisitions in different locations primarily reflects the role of independent directors in different locations.

Quanyi (2017) [19] discovered from the debate of the special group that hired independent directors in Beijing that listed firms with distant headquarters and Beijing, as well as those with a weak institutional environment at the headquarters, are more likely to hire independent directors from Beijing. Directors: The percentage of Beijing independent directors working for various listed companies in government departments is much higher than that of local listed companies in Beijing; employing independent directors in Beijing does assist businesses in obtaining political resources from listed companies across the globe. Refinancing equity, breaking into a high-barrier business, and lowering the possibility of corporate infractions. We discovered from the aforementioned literature that the unique occurrence of independent directors being re-elected receives less attention in both local and foreign literatures.

Although the term of office was mentioned in the study of the independent director's personal characteristics, the theoretical path of reappointment is not fully explored, and the reelection phenomenon is rarely brought up. Numerous phenomena have surfaced in the market for independent directors in listed firms since China's system was established. The phenomena of independent directors is being explained and practice development is being further guided by theoretical reasoning and empirical testing.

6. Conclusion

People's comprehension of the role of independent directors has significantly increased as a result of these investigations, but two problems remain. First, endogenous issues significantly reduce study efficacy and provide skewed findings. The fact that the relationship between independent directors and corporate value has not yet been established is one notable example. While Klein (1998) came to the conclusion that the two are unconnected, Wang Yuetang and Rosenstein & Wyatt (1990) found that independent directors add to the company's worth. Additionally, Agrawal & Knoeber (1996) found that the proportion of independent directors actually reduced the value of the company.

According to the aforementioned research, the primary reason for the discrepancy is that the company's characteristics disregard the board of directors' structure, and the company's characteristics also dictate the board's independence. What kind of role it plays and how it impacts the company's worth (Coles et al., 2008). Thus, the research design of natural experiments is required to determine the causal influence and role of independent directors on firm value (Adams et al., 2010).Second, the majority of current research ignores the distinctiveness and diversity of the independent director problem in emerging markets in favour of the viewpoint of developed markets. Micro-level corporate governance is significantly impacted by the institutional environment at the national level (Willison, 2000): The institutional environment has changed, and governance methods may no longer serve the same purpose. For example, China's IPO audit system, which was initially implemented as a means of resolving agency issues, has incentivised listed businesses to hire audit-experienced accounting firms in order to increase the frequency of meetings. According to Yang (2013), auditors are "watchdogs" who have been alienated into a "passport." Analysing the roles of independent directors is also inextricably linked to China's institutional context, which differs from that of Western markets. For However, the body of research in this area is still in its early stages. Liu Chun et al. (2015), for example, took advantage of the market segmentation elements of local safeguarding in China and found that the contribution of independent directors in different locations mainly exists in the use of regional social media platforms to overcome barriers to mergers and acquisitions in multiple places.

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