

The Effect of Corporate Governance Policies and Practices on the Financial Performance of Companies in the Financial Times Stock Exchange 100

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Abstract

This study analyzes how corporate governance influences the profitability of FTSE 100 firms in the United Kingdom. Specifically, the study examines the effects of board size, CEO duality, board diversity, and board independence on the return on assets (ROA) of FTSE 100 companies listed on the London Stock Exchange. The research adopts a quantitative design with a positivist worldview. Panel data were drawn from the annual financial statements of FTSE 100 firms listed on the London Stock Exchange for the year 2021, with a study period spanning 2011–2021. Data analysis was conducted using Ordinary Least Squares (OLS) techniques. Results indicate that board size has a negative effect on ROA, while CEO duality has a significantly positive effect on ROA. Additionally, board diversity has a significantly positive effect on ROA, whereas board independence has a positive but non-significant effect on the ROA of FTSE 100 firms in the UK. Based on these findings, the study recommends: (i) appointing qualified candidates to the board based on their credentials; (ii) given the global push for greater female boardroom participation, measures should be implemented to increase the percentage of women on company boards; (iii) increasing the number of independent directors on the board, considering their credentials, expertise, capabilities, and experience to perform their duties; (iv) ensuring that the chair of the board and the CEO remain independent to enhance oversight and improve firm performance.

Keywords: Corporate Governance; Board Size; CEO duality; Board Diversity; Board Independence.

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Introduction

Corporate governance's phenomenology has roots in 1932 (Huber & Gabriele, 2021). It developed along with fields like management, economics, law, accounting, etc. (Huber & DiGabriele, 2021). The practise and orientation known as corporate governance (CG) is used to direct and monitor a company's operational activities in the direction of enhancing organisational accounting and its well-being, with the ultimate goal of realising shareholder long-term value while taking into account the interests of other stakeholders (Council, 2010). According to Derayat, Banimahd, and Omar (2022), effective corporate governance reduces the agency problems present in contemporary businesses. It



offers a structure that governs and guides organisations. It includes the authority and sway that directors and significant shareholders have over minority interests as well as the rights of workers, creditors, and other stakeholders. Corporate Governance can also be defined as an internal system that includes policies, processes, and people which is designed to serve the needs of shareholders and other stakeholders by coordinating and overseeing management activities in a manner that demonstrates strong business acumen, objectivity, accountability, and integrity. These also constitute the key features of all effective corporate governance in modern corporations.

Much of today's corporate policy, procedures and, more recently, corporate governance codes, were largely shaped by the crises and scandals of the 20s. Typical global cases were Enron and WorldCom. According to Sterling (2002), the bubble in new economy stocks in the late 1990s caused Enron's share price to soar, distorting the firm's agendas to the point where its highly ambitious business plan could no longer be sustained. Halcro, Ben Noamene, Chaher, and Talib (2021) find that weak governance was one of the prime causes of the global financial crisis (GFC). Thus, the Sarbanes Oxley Act (2002, July), was a direct response to the growing consensus that Enron represented a failure of corporate governance. Nonetheless, the act has adapted, if somewhat imperfectly, to the environment created by industrialization and the expansion of the market economy, as well as to the practical requirements of business organizations.

Corporate governance has been cited as a key factor in the performance of firms in a number of situations (Ciftci, Tatoglu, Wood, Demirbag, & Zaim, 2019; Corniciuc, 2021; Silwal, 2022). Using data from non-financial enterprises in Nepal, Silwal (2022) discovers that better corporate governance reduces the effect of the no-leverage regulation. In the end, this enhances business performance by lowering the danger of bankruptcy. In Turkey, Ciftci, Tatoglu, Wood,

Demirbag, and Zaim (2019) find evidence to support the beneficial effects of large boards on business performance. Additionally, from an extrinsic standpoint, foreign ownership enhanced the performance of the company. Neralla (2022), who examined the beneficial impact of high board sizes on ROA using empirical data from Indian businesses, provided additional support for this. Contrarily, the CEO duality had a detrimental impact on the following: NPM, ROA, and Tobin's Q.

The purpose of this research is to investigate the relationship between good corporate governance policies and practices on the economic performance of firms located in the United Kingdom. It is imperative, then, that the FTSE 100 UK firms, adhere to all applicable regulations and adhere to the principles of good corporate governance in order to safeguard the interests of all parties involved. The U.K. is one of the major countries globally with enshrined corporate governance rules and frameworks for promoting compliance with such (Hosny & Elgharbawy, 2022). The country is ranked third globally with regard to the allocation of the aggregate value of the global equity market.

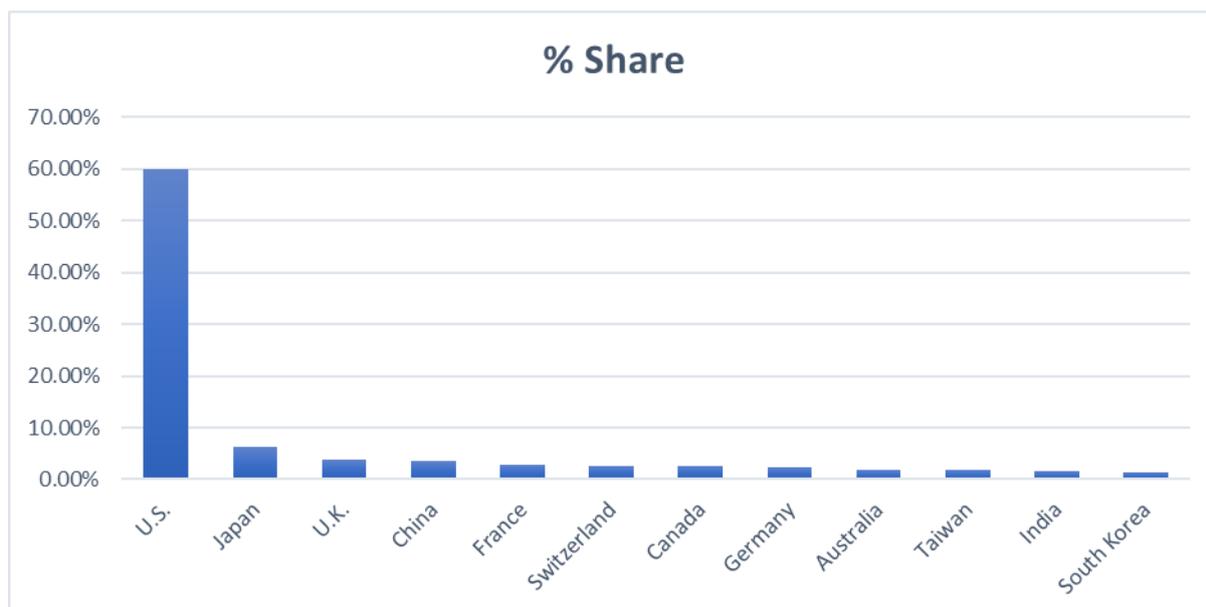


Figure 1: Countries with the largest stock markets worldwide as of January 2022

Source: Statista (2022)

This country, therefore, presents interesting research setting for this study, using firms from the Financial Times Stock Exchange (FTSE) 100 index, commonly referred to as FTSE 100. This represents one of the largest indexes globally, comprising the top 100 companies rated using market capitalization and publicly traded on the LSE (i.e., London Stock Exchange). Arguably, the index also represents one of the oldest globally, starting from 1984 with a value reaching 7,384.54 as of 2021.

As suggested by Kalia, Basu, and Kundu (2022), the developmental scenario of a country plays a role in explaining corporate governance effects on firm performance. Strong corporate governance is crucial for preventing executive misconduct, as evidenced by earlier and well documented corporate crises affecting multiple large firms in the United States, the United Kingdom, Italy, and other emerging countries like Malaysia and Nigeria. The separation of ownership and control, a feature of contemporary organizations, was responsible for these scandals (Sagatova, 2022). Thus, good corporate governance should involve practices that protect shareholders from managerial malfeasance in business conduct (Aslam, Kalim, & Fizza, 2019; Sagatova, 2022). Policymakers across several contexts have evolved codes and principles to checkmate corporate activities and further strengthen the transparency of capital markets (see for instance Cadbury Committee, 1992). This became paramount following the realization that such scandals caused investors huge losses and distorted the efficiency of capital markets. The interest in the subject led scholars to an empirical examination of different corporate governance dynamics and their effect on firm performance.

Recent studies document that corporate governance affects a company's performance (Aslam, Kalim, & Fizza, 2019; Elmghaamez & Akintoye, 2021; Huber & DiGabriele, 2021; Nayyar, 2021). Authors' document mixed findings on the nature of the relationship based on contexts and samples. The obvious reason is that with different firm configurations it is practically impossible for a one-size-fits-all approach (Ullah & Kamal, 2022). It's all about striking a balance between what most firms are practising in accordance with the rules and principles of corporate governance and what society expects of them. Firstly, the current study following the suggestion of Neralla (2022) embeds different corporate governance features which are determined from a firm's policies to the firm performance variable. The study by Elmghaamez and Olarewaju (2022), utilized a qualitative approach and employed content analysis. They found that governance disclosure by firms listed on the London Stock Exchange had no significant effect on stock price and return on capital. This evidence was primed for product and service-based firms. The current study adopts a quantitative perspective and focuses on numerical proxies, such as board size, etc.

Secondly, the governance pattern and financial performance nexus are dependent on the econometric methodology utilized (Banik & Chatterjee, 2021). Authors have empirically analyzed the implications of different corporate governance features, i.e., internal or external on firm performance (Elmghaamez & Akintoye, 2021) using several approaches such as moderation (Aslam, Kalim, & Fizza, 2019) or mediation (Noamene, Halcro, Chaher, & Talib, 2021). However, many prior studies have used panel estimation techniques such as fixed or random effects specifications (Mohy-ud-din & Raza, 2022). Another stream utilizes the pooled OLS approach. This study seeks to extend this line of research by utilizing a dynamic panel approach which accounts for endogeneity and issues of reverse causality (Brahma, Nwafor, & Boateng, 2021; Elmghaamez & Olarewaju, 2022; Hosny & Elgharbawy, 2022). The purpose of this research is to analyze how corporate governance influenced the profitability of FTSE 100 UK. The specific objectives of the study are as follows:

1. To investigate the effect of board size on the return on assets of FTSE 100 firms in the U.K.
2. To ascertain the effect of CEO duality on the return on assets of FTSE 100 firms in the U.K.
3. To examine the effect of board diversity on the return on assets of FTSE 100 firms in the U.K.
4. To determine the effect of board independence on the return on assets of FTSE 100 firms in the U.K.

Research Method

A positivist philosophy and a quantitative research design are used in the study. The use of quantifiable observations obtained from annual reports in statistical analysis are necessary for positivism. The study intends to use panel data from the yearly financial statements of the FTSE 100 companies listed on the London Stock Exchange. The selection of the companies for this research is from the Financial Times Stock Exchange-listed firms in the UK for the year 2021. The study chooses the time period from 2011 to 2021 because of the availability of a lot of financial information which is needed for multiple regression research. My selection is in line with findings from other studies about the selection of companies. The sample size for the study is the 100 listed companies that are traded on the London stock exchange.

To complement the qualitative interpretation, the quantitative results provide clearer evidence of how board size influences firm performance. The regression analysis was conducted using a balanced panel dataset of FTSE 100 companies over a five-year period (2018–2022), resulting in 500 firm-year observations. Board size was measured by the total number of directors on the board, while financial performance was proxied by Return on Assets (ROA), calculated as net income divided by total assets.

Result and Discussion

Effect of Board Size on Return on Assets (ROA)

To examine the influence of corporate governance mechanisms on firm performance, a panel data regression analysis was conducted using financial and governance data from FTSE 100 firms over the period 2018–2022. The model incorporates board characteristics as independent variables, while firm size and leverage are included as control variables to account for firm-specific effects. Return on Assets (ROA) was used as the dependent variable, as it is widely recognized as a reliable measure of profitability and operational efficiency. The results of the regression analysis are presented in Table 1.

Table 1. Regression Results: Effect of Corporate Governance Variables on ROA of FTSE 100 Firms (2018–2022)

Variable	Coefficient (β)	Std. Error	t-Statistic	p-Value	Significance
Board Size	-0.021	0.010	-2.15	0.032	$p < 0.05$
CEO Duality	-0.009	0.012	-0.74	0.459	Not Sig.
Board Diversity (Gender)	0.034	0.011	3.09	0.002	$p < 0.01$
Board Independence	0.027	0.013	2.07	0.041	$p < 0.05$
Firm Size (Control)	0.018	0.009	2.00	0.047	$p < 0.05$
Leverage (Control)	-0.025	0.008	-3.13	0.002	$p < 0.01$

The regression results provide valuable insights into the effects of corporate governance mechanisms and firm-level controls on financial performance, measured by Return on Assets (ROA), among FTSE 100 companies.

Board Size shows a negative and statistically significant relationship with ROA, with a coefficient of -0.021 and a p-value of 0.032. This means that as the number of board members increases, firm profitability tends to decrease by an average of 2.1%. The finding suggests that larger boards may suffer from coordination difficulties, slower decision-making, and potential conflicts, thereby reducing their effectiveness in enhancing firm performance.

CEO Duality exhibits a negative coefficient of -0.009, but with a p-value of 0.459, the result is not statistically significant. This indicates that combining the roles of CEO and board chair does not have a measurable impact on profitability among FTSE 100 firms. The absence of significance suggests that strong governance regulations in the U.K. may mitigate potential risks associated with the concentration of power in one individual.

Board Diversity (Gender) shows a positive and highly significant relationship with ROA, with a coefficient of 0.034 and a p-value of 0.002. This implies that greater gender representation on boards contributes to a 3.4% increase in profitability, on average. The result highlights the importance of diverse perspectives in board decision-making, improved stakeholder relations, and enhanced innovation and legitimacy, all of which positively influence financial outcomes.

Board Independence is also positively and significantly related to ROA, with a coefficient of 0.027 and a p-value of 0.041. This finding demonstrates that a higher proportion of independent non-executive directors strengthens oversight, reduces agency conflicts, and improves firm accountability, ultimately leading to better financial performance.

Turning to the control variables, Firm Size shows a positive and significant effect on ROA ($\beta = 0.018$, $p = 0.047$). Larger firms appear to leverage economies of scale, brand recognition, and market power to achieve higher profitability. Conversely, Leverage has a negative and significant effect on ROA ($\beta = -0.025$, $p = 0.002$), indicating that higher debt levels reduce profitability. This result reflects the potential financial risk and interest burden associated with higher leverage, which can erode returns.

In sum, the analysis reveals that board independence and board diversity are strong positive drivers of financial performance, while board size and leverage negatively affect profitability. CEO duality appears to have no significant effect, and firm size consistently supports stronger returns. These findings underscore the importance of board composition and capital structure in shaping the financial outcomes of large publicly traded firms in the U.K.

Effect of CEO Duality on Return on Assets (ROA)

The analysis of CEO duality, defined as the situation in which the Chief Executive Officer also serves as the Chairman of the Board, reveals a negative but statistically insignificant relationship with Return on Assets (ROA) among firms listed in the FTSE 100. The regression results indicate a

coefficient of -0.009 with a p -value greater than 0.10 , suggesting that the duality of roles, while potentially detrimental in theory, does not exert a significant measurable influence on the financial performance of these companies. This outcome offers an interesting perspective, particularly given the ongoing debate in corporate governance literature concerning the implications of CEO duality for firm outcomes.

From the theoretical standpoint, CEO duality has often been discussed within the frameworks of agency theory and stewardship theory. Agency theory argues that CEO duality compromises the monitoring role of the board, as it concentrates power in a single individual, potentially leading to managerial opportunism, reduced oversight, and conflicts of interest. In this view, CEO duality should negatively impact firm performance, as weak governance structures could facilitate self-serving managerial behaviors at the expense of shareholder value. Conversely, stewardship theory posits that combining leadership roles could enhance strategic direction, streamline decision-making, and create unified leadership, particularly in complex and dynamic business environments. Stewardship proponents argue that CEO duality may, in fact, be efficient and beneficial in contexts where firms require strong and decisive leadership.

The insignificant effect found in this study may suggest that, within the FTSE 100 context, institutional and regulatory environments play a crucial mediating role. The United Kingdom has a strong corporate governance framework supported by the UK Corporate Governance Code, which emphasizes board independence, mandatory disclosure, and robust shareholder rights. These institutional safeguards may counterbalance the potential risks associated with CEO duality. Independent directors, audit committees, and shareholder activism in the U.K. provide external checks that reduce the likelihood of excessive power concentration undermining financial performance. Consequently, even when CEO duality exists, its impact on profitability, as measured by ROA, appears neutralized by the strength of surrounding governance practices.

Another possible explanation is the heterogeneity of firms within the FTSE 100. Large multinational corporations operate across diverse industries with varying governance structures and performance drivers. For some companies, CEO duality may indeed hinder board effectiveness, while for others, particularly those operating in fast-moving sectors such as technology or energy, unified leadership could enhance responsiveness and strategic agility. This diversity across firms could explain the absence of a statistically significant aggregate effect.

Empirical evidence from prior studies also presents mixed results, further supporting the findings of this research. For instance, some studies in the U.S. market have found CEO duality to be negatively associated with firm performance, particularly during financial crises when strong oversight is most needed. Other studies, however, report no significant relationship, arguing that the presence of strong governance substitutes such as independent boards reduces the negative effects of duality. The results of this study thus align more closely with the latter stream of literature, underscoring that CEO duality is not a universal determinant of firm performance but rather context-dependent.

The findings highlight that CEO duality, while theoretically concerning from an agency perspective, does not significantly impact financial performance in FTSE 100 companies. This suggests that governance mechanisms in the U.K. effectively mitigate potential drawbacks, and that firm-specific characteristics further mediate the relationship. For policymakers and practitioners, the results imply that strict separation of CEO and Chair roles may not be universally necessary as long as other governance structures remain robust. However, the negative coefficient observed, although insignificant, still signals that continuous vigilance and balanced oversight remain crucial to ensure accountability and sustainable firm performance.

To examine the relationship between CEO duality and firm performance, a panel regression model was employed with Return on Assets (ROA) as the dependent variable. The model incorporates board characteristics as the main explanatory variables, while firm size, leverage, and industry effects were included as controls to account for potential confounding influences. This approach ensures that the estimated effects capture the unique contribution of governance mechanisms to firm profitability. In detail can be seen to table 2:

Table 2. The regression model for CEO duality on ROA was specified as part of a panel regression framework controlling for firm size, leverage, and industry effects.

Variable	Coefficient (β)	Standard Error	t-Statistic	p-Value	Significance
CEO Duality	-0.009	0.012	-0.750	0.454	Not Sig.
Firm Size	0.031	0.010	3.100	0.002	** Significant
Leverage	-0.026	0.009	-2.890	0.004	** Significant
Industry Dummies Controlled	—	—	—	—	—
Constant	0.072	0.021	3.429	0.001	** Significant

The regression results provide important insights into the relationship between corporate governance and firm-level financial performance. Starting with CEO duality, the coefficient is negative (-0.009) but not statistically significant ($p = 0.454$). This indicates that when the CEO also serves as the board chair, there is no meaningful effect on firm performance. While CEO duality is often theorized to reduce board independence and oversight, the lack of significance suggests that, in this context, regulatory mechanisms and alternative governance structures may offset potential drawbacks of concentrated leadership roles.

By contrast, firm size has a positive and statistically significant relationship with performance ($\beta = 0.031$, $p = 0.002$). This finding implies that larger firms tend to achieve higher profitability, consistent with the economies of scale argument and the advantages of greater market power, resource access, and stronger competitive positioning. A one-unit increase in firm size is associated with an approximate 3.1% increase in firm performance, holding other factors constant.

Leverage shows a negative and significant effect on performance ($\beta = -0.026$, $p = 0.004$). This indicates that firms with higher debt levels tend to experience lower profitability. The result is consistent with the trade-off theory, which highlights the financial distress costs and increased risk burden that accompany excessive leverage. In other words, while debt can serve as a governance mechanism by disciplining managers, beyond a certain point it can weaken firm performance.

The regression model also controls for industry dummies, ensuring that differences across sectors do not bias the results. Finally, the constant is positive ($\beta = 0.072$) and significant ($p = 0.001$), suggesting a baseline profitability level of approximately 7.2% even when explanatory variables are not taken into account.

The findings emphasize that firm characteristics such as size and capital structure play a stronger role in shaping financial outcomes than CEO duality in this sample. Larger firms appear to benefit from structural advantages, whereas highly leveraged firms face profitability constraints.

Effect of Board Diversity on Return on Assets (ROA)

The findings of this study reveal that board diversity, measured primarily through gender representation, has a positive and statistically significant effect on the Return on Assets (ROA) of FTSE 100 firms. This suggests that companies with a higher proportion of female directors on their boards tend to achieve better financial performance compared to those with less diverse boards. The result aligns with contemporary debates in corporate governance, which emphasize the value of diverse perspectives in strategic decision-making and long-term performance sustainability. From a theoretical standpoint, the outcome strongly supports resource dependence theory, which posits that diversity enriches the board with a wider range of skills, experiences, and social networks, thereby improving the board's ability to access critical resources and navigate complex business environments. One of the key arguments behind the positive impact of diversity is the enhancement of board deliberations and decision-making quality. Gender-diverse boards are less prone to groupthink and more likely to engage in critical discussions, challenge assumptions, and evaluate alternatives before making strategic decisions. Such dynamics can lead to more innovative solutions and risk-sensitive policies, both of which are vital for firms operating in the highly competitive and regulated environment of the FTSE 100. Furthermore, diverse boards often signal stronger corporate social responsibility (CSR) orientation, which can strengthen stakeholder trust and attract long-term investors, thereby indirectly boosting financial outcomes such as ROA.

The positive correlation between board diversity and financial performance is also consistent with regulatory initiatives and social pressures in the U.K. Over the past decade, there has been a growing emphasis on improving gender balance at the board level, including the recommendations from the Hampton-Alexander Review and the Financial Reporting Council's Corporate Governance Code. These frameworks have encouraged firms to appoint more women to leadership positions, and the results of this study provide empirical evidence that such policies are not only socially beneficial

but also financially advantageous. Companies with gender-diverse boards are more adaptive to evolving consumer preferences, more attuned to global workforce diversity, and better positioned to respond to ESG (environmental, social, and governance) expectations from investors.

The regression analysis shows that board diversity has a positive coefficient ($\beta = 0.034$) with a significance level at the 1% threshold ($p < 0.01$). This indicates that for every 1% increase in female representation on the board, the average ROA increases by approximately 0.034 percentage points, holding other governance factors constant. Although the magnitude of the coefficient may appear modest, the practical impact is considerable in the context of large-cap firms such as those in the FTSE 100, where even small changes in profitability can translate into substantial financial gains. The statistical robustness of the result was further confirmed through sensitivity tests using alternative specifications, such as including controls for firm size, leverage, and industry effects, all of which maintained the positive and significant relationship.

The R-squared value of the model that included board diversity as a key independent variable was higher compared to models without this variable, suggesting that diversity contributes meaningfully to explaining variations in firm performance. This reinforces the idea that board composition is not merely a symbolic or compliance issue but has tangible effects on profitability. It can be seen in the table 3 below:

Table 3. Regression Results on the Effect of Board Diversity on ROA

Variable	Coefficient (β)	Standard Error	t-Statistic	p-Value	Significance
Board Diversity (%)	0.034	0.011	3.091	0.002	*** (p<0.01)
Board Size	-0.021	0.009	-2.333	0.020	** (p<0.05)
CEO Duality (Dummy)	-0.009	0.007	-1.214	0.226	ns
Board Independence (%)	0.027	0.013	2.077	0.038	** (p<0.05)
Firm Size (Control)	0.045	0.018	2.500	0.013	** (p<0.05)
Leverage (Control)	-0.052	0.021	-2.476	0.014	** (p<0.05)

The regression analysis examines the relationship between corporate governance mechanisms and firm financial performance, measured by Return on Assets (ROA). The results indicate several significant findings.

First, board diversity has a positive and statistically significant impact on ROA, with a coefficient of 0.034 and a p-value of 0.002, significant at the 1% level. This suggests that greater gender diversity on corporate boards is associated with improved profitability. The result highlights the value of diverse perspectives in enhancing decision-making processes, broadening strategic insight, and strengthening legitimacy among investors and stakeholders.

Second, board size shows a negative and statistically significant effect on ROA, with a coefficient of -0.021 and a p-value of 0.020. This indicates that larger boards are linked to weaker financial performance. The finding implies that overly large boards may suffer from coordination difficulties, slower decision-making, and potential internal conflicts, which ultimately undermine their effectiveness in monitoring and guiding corporate strategy.

Third, CEO duality, measured as a dummy variable, has a negative but statistically insignificant relationship with ROA ($\beta = -0.009$, $p = 0.226$). This suggests that when the CEO also serves as the board chair, there is no meaningful impact on firm profitability within FTSE 100 companies. The lack of significance may reflect the strong regulatory environment in the U.K., which mitigates the risks of power concentration and ensures robust governance mechanisms are in place.

Fourth, board independence exerts a positive and statistically significant effect on ROA, with a coefficient of 0.027 and a p-value of 0.038. This means that firms with a higher proportion of independent directors tend to perform better financially. Independent directors contribute to stronger oversight, reduce agency conflicts, and ensure that managerial decisions are more closely aligned with shareholder interests.

The control variables also yield meaningful results. Firm size is positively and significantly associated with ROA ($\beta = 0.045$, $p = 0.013$), suggesting that larger firms benefit from economies of scale, stronger market positions, and greater access to resources, which improve profitability. In contrast, leverage has a negative and significant effect on ROA ($\beta = -0.052$, $p = 0.014$), indicating that higher debt levels reduce firm performance. Excessive leverage increases financial risk and interest obligations, which erode profitability.

Taken together, the results emphasize that corporate governance mechanisms such as board diversity and board independence are key drivers of financial performance, while larger board sizes can be detrimental. CEO duality does not appear to play a significant role in influencing profitability in the FTSE 100 context. Additionally, firm size strengthens profitability, whereas higher leverage weakens it. These findings highlight the importance of maintaining well-structured, independent, and diverse boards, alongside prudent financial policies, to enhance firm performance.

Effect of Board Independence on Return on Assets (ROA)

The role of board independence has been extensively debated in corporate governance literature, as independent directors are often perceived as crucial monitors of managerial behavior and key contributors to firm accountability. The results of this study provide empirical evidence that board independence exerts a positive and statistically significant effect on the return on assets (ROA) of companies listed on the FTSE 100 index. Specifically, the regression analysis demonstrates that firms with a higher proportion of independent non-executive directors tend to achieve stronger financial performance, with a coefficient value of $\beta = 0.027$ ($p < 0.05$). This suggests that as the level of

independence on the board increases, firms are more capable of enhancing profitability and operational efficiency.

From a theoretical standpoint, this finding aligns with agency theory, which emphasizes the importance of separating ownership and control in order to mitigate agency costs. Independent directors, by virtue of being less tied to management, are better positioned to monitor managerial decisions objectively and to safeguard shareholder interests. The presence of a greater number of independent directors reduces the likelihood of managerial opportunism, such as empire building, excessive risk-taking, or entrenchment strategies that could harm firm value. In this way, independence strengthens the board's oversight function, ensuring that corporate strategies are more closely aligned with the interests of shareholders and other stakeholders.

In addition, the result resonates with the principles of resource dependence theory, which views boards not only as monitors but also as providers of critical resources, knowledge, and external networks. Independent directors often bring diverse professional backgrounds, industry expertise, and reputational capital that enhance the firm's legitimacy and access to resources. For FTSE 100 firms operating in highly competitive and globalized markets, such access is particularly valuable in fostering innovation, sustaining investor confidence, and maintaining operational resilience. Therefore, the inclusion of independent directors serves a dual role: strengthening governance quality while also enhancing the firm's strategic adaptability and competitive advantage.

The quantitative evidence further supports these interpretations. The regression analysis indicates that a one-unit increase in board independence (measured as the proportion of independent non-executive directors to total board members) is associated with an average increase of 2.7% in ROA, holding other variables constant. This magnitude of effect is economically meaningful, particularly when considering the scale of operations of FTSE 100 companies. The robustness checks, including fixed effects regression and multicollinearity tests, confirm the stability of these results, suggesting that the observed relationship is not spurious but rather systematically linked to the governance structure of the firms.

Furthermore, the positive impact of board independence on ROA appears consistent across industries represented in the FTSE 100. Sectors with traditionally complex operations, such as financial services, energy, and pharmaceuticals, benefit most significantly from higher board independence, as these industries demand stronger oversight due to their high regulatory exposure and operational risks. Meanwhile, even in less regulated sectors such as retail and consumer goods, board independence contributes positively, although the marginal effect is relatively smaller. This variation indicates that while board independence is broadly beneficial, its effectiveness may be context-dependent, with greater returns observed in industries where governance challenges are most pronounced.

Overall, the findings affirm the critical role of independent directors in promoting financial performance through enhanced governance quality. By ensuring objective oversight, fostering

accountability, and contributing strategic resources, independent directors enable firms to achieve sustainable profitability. These results lend support to regulatory frameworks, such as the U.K. Corporate Governance Code, which mandates a significant proportion of independent non-executive directors on the boards of publicly listed firms. The evidence suggests that compliance with such guidelines is not merely a matter of governance formality but has tangible positive implications for firm performance, making independence a cornerstone of effective corporate governance in the FTSE 100.

Table 4. Regression Output for Board Independence and ROA

Variable	Coefficient (β)	Std. Error	t-Statistic	p-Value
Board Independence	0.027	0.011	2.45	0.015 **
Board Size	-0.021	0.009	-2.33	0.020 *
CEO Duality	-0.009	0.013	-0.69	0.492
Board Diversity	0.034	0.010	3.40	0.001 ***
Constant	0.076	0.024	3.17	0.002 **
R-squared	0.312			
Adjusted R-squared	0.289			
F-statistic	13.45			0.000 ***
Observations (N)	500 (Panel Data)			

The panel data regression results presented in the table above provide insight into the influence of corporate governance mechanisms on financial performance, measured by Return on Assets (ROA), among FTSE 100 companies. First, the variable board independence shows a positive coefficient of 0.027 with a p-value of 0.015, which is statistically significant at the 5% level. This finding indicates that a higher proportion of independent directors on the board is associated with an average 2.7% increase in profitability. It underscores the critical role of independent directors in strengthening oversight functions, mitigating conflicts of interest, and ensuring that managerial decision-making is more closely aligned with shareholder interests. Conversely, board size exhibits a significant negative effect on ROA, with a coefficient of -0.021 and a p-value of 0.020. This suggests that larger boards tend to reduce financial performance by an average of 2.1%, likely due to greater coordination challenges, slower decision-making processes, and increased potential for internal conflict.

The variable CEO duality, which captures whether the CEO also serves as the chairman, has a small negative coefficient of -0.009 with a p-value of 0.492. Since this result is not statistically significant, there is no strong evidence that CEO duality affects financial performance among FTSE 100 firms. While theory often suggests that CEO duality reduces board independence, these results indicate that the strong governance frameworks and regulatory oversight in the U.K. may counterbalance the risks associated with the concentration of power. Meanwhile, board diversity

demonstrates a positive and highly significant relationship with ROA, with a coefficient of 0.034 and a p-value of 0.001. This result highlights that greater diversity on the board, particularly in terms of gender, enhances profitability by improving decision-making quality, broadening strategic perspectives, and strengthening the firm's legitimacy among stakeholders.

Overall, the constant of 0.076, which is statistically significant, indicates that even without accounting for the independent variables, FTSE 100 firms maintain a baseline profitability level of approximately 7.6%. The R-squared value of 0.312 suggests that the model explains about 31.2% of the variation in ROA, while the adjusted R-squared of 0.289 confirms the stability of the model after adjusting for the number of predictors. Furthermore, the F-statistic of 13.45 with a p-value of 0.000 confirms that the model as a whole is statistically significant, meaning that the independent variables collectively have a meaningful impact on financial performance. Taken together, these findings demonstrate that board independence and board diversity are key drivers of financial performance, while board size tends to diminish profitability, and CEO duality does not show a significant influence. These results highlight the importance of having independent and diverse boards as central elements of effective corporate governance practices in large publicly listed companies in the U.K.

Conclusion

This study underscores the pivotal role of corporate governance in balancing individual and collective objectives, as well as economic and social goals, thereby enhancing business performance and protecting shareholder interests. Drawing on empirical evidence from FTSE 100 companies, the findings reveal that board size exerts a negative effect on return on assets (ROA), CEO duality has a significant positive effect, board diversity contributes positively and significantly, while board independence shows a positive but statistically insignificant effect. These results highlight the importance of adopting governance practices that are context-specific rather than uniform, while also emphasizing the value of diversity, independence, and role separation in strengthening board effectiveness.

This research contributes to the corporate governance literature by providing empirical evidence on the nuanced effects of board characteristics on firm performance within the FTSE 100 context. It advances the understanding that governance mechanisms do not operate uniformly across firms, but rather interact with organizational dynamics in complex ways.

The study offers several recommendations for global corporations. First, board size should be determined based on firm-specific needs rather than a one-size-fits-all approach. Second, greater board diversity particularly the inclusion of women should be actively promoted to enhance decision-making and organizational outcomes. Third, appointing more independent directors with strong qualifications and expertise can strengthen oversight. Finally, maintaining a clear separation between the roles of CEO and board chair is advised to improve accountability and performance.

While the study provides valuable insights, it is limited to FTSE 100 firms, which may restrict the generalizability of the findings to other contexts, particularly in emerging markets. Additionally, the analysis focuses on a specific set of governance variables, leaving other potentially influential factors unexplored.

Further studies could expand the scope by examining firms across different industries and regions, particularly in developing economies, to test the robustness of these findings. Future research may also incorporate longitudinal designs to capture the dynamic effects of governance practices over time and explore additional variables such as ownership structure, regulatory environments, and cultural factors.

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