

# **Board Independence And Firm Performance: The Moderating Effect Of Institutional Context**

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## **Abstract**

This study proposes a new research approach to examine the relationship between board independence and corporate performance, measured by technical efficiency. Moreover, this paper examines the moderating role that institutional factors exert on this relationship through the legal system—the content of law and its enforcement. The research questions are examined using an international sample of 2185 firms from 2006 to 2015, applying truncated regression models for panel data and employing data envelopment analysis to examine efficiency as a measure of performance. This paper supports that board independence increases the firm's technical efficiency. Even more, greater legal and judicial protection exerts a positive moderating effect on the previous relationship by protecting private benefits for insiders, among other aspects. Thus, the positive impact of independent directors on efficiency is greater when firms operate in countries with a greater extent of law and enforcement. Our findings include endogeneity checks using instrumental variables.

## **Keywords**

Board Independence; DEA; Efficiency; Institutional Factors