

Review

# Does board structure influence employee retention?: A systematic literature review

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**Abstract:** Employee Engagement (EE) has become a crucial element for the success of any organization. While psychology has conducted extensive research on EE, accounting has yet to give it the attention it deserves. This systematic literature review (SLR) was conducted to explore the linkage between corporate governance (CG) practices and factors that drive employee engagement (EED) in greater detail. The review identified several key factors influencing EED: board composition, audit committees, top leadership expertise, network power, other stakeholders' supervision, and above-board application. In particular, the study revealed that effective CG practices have positive EE consequences, such as increased staff morale, job satisfaction, and productivity, and decreased employee turnover rates. The study underlined the importance of an employee-centric culture that encourages empowerment and fosters a sense of belonging in achieving maximum business success. It suggests that companies must create a work environment that promotes EE, provides opportunities for growth and development, recognizes employee contributions, and fosters open communication and collaboration. By leveraging these insights, companies can enhance their business operations and achieve maximum success by fostering a culture of EE and empowerment. The study concludes that businesses prioritizing EE as a core value can create a sustainable competitive advantage, increase their reputation, and attract and retain top talent.

**Keywords:** board composition; corporate governance; employee engagement drivers; stakeholders

## 1. Introduction

A company's sustainability and success heavily rely on its employees' engagement, especially during tough competition and external uncertainties. (Anand, 2017; Antony, 2018). To reach their objectives, companies should use all their human resources instead of depending solely on owners and senior leadership teams (Brownson et al., 2009). Employees at all levels should collaborate to achieve the company's shared goals (Milliman et al., 2001). The old-fashioned steam train operates by having only the foremost carriage, which consists of owners and top management responsible for propelling the carriages behind it. This method results in slower speeds than the present superspeed train, which uses thrust at the head, the principal, and the leader, and pushers at the tail carriage, which employs men. As a result, dedicated and motivated staff provide excellent customer service, superior work quality, improved output, and better innovation, delivering higher client satisfaction, revenue, and profits for shareholders (Lightle et al., 2015). This study is intended to complement the previously conducted research on entrepreneurial opportunities by

focusing on internal factors that contribute to a firm's competitive advantage (Gholizadeh and Mohammadkazemi, 2022). Specifically, this research aims to investigate the internal mechanisms that drive a firm's competitive advantage, rather than external factors. By exploring these internal factors, this study will provide a deeper understanding of how firms can create a sustainable competitive advantage in the market.

Employee engagement (EE) refers to how individuals utilize all aspects of themselves during work functions. This definition includes their physical, cognitive, and emotional expressions. The cognitive viewpoint involves people's beliefs and thoughts regarding their organization, leaders, and working conditions. This aspect is crucial as it shapes an employee's overall attitude towards their job. The emotional standpoint is equally crucial, as it influences employees' feelings towards their organization and its leaders, resulting in positive or negative attitudes. Lastly, the physical part involves the energy exerted by individuals to fulfill their duties. Employee engagement entails being fully immersed mentally and physically in work-related tasks, which is vital in promoting job satisfaction and overall organizational success (Kahn, 1990).

The topic of how engagement is developed has been discussed, and one contributing factor is the organization's corporate governance. Previous studies have indicated that various factors influenced EE, such as a positive work environment, growth opportunities, recognition, and feedback from the company (Harter et al., 2002; Harter et al., 2003). Firms must prioritize employees' psychological and physical well-being to achieve high EE levels. This statement includes their happiness, enthusiasm, health, job satisfaction, job characteristics, organizational commitment, citizenship, communication, knowledge sharing, and the organization's reputation. Additionally, we must consider accountability, environmental influence, incentives, job autonomy, learning opportunities, workplace climate, and work-unit engagement. Trust between employees and the company, transformational leadership, and employer branding are also crucial. Organizations can create a culture of engagement by prioritizing these factors, which will make employees feel appreciated and driven to make meaningful contributions to the company's achievements. (Saks, 2006; Cawe, 2006; Bhatnagar, 2007; etc.)

The following segments will review different accounting perspectives on employee engagement, examine the systematic review methodology, thoroughly discuss, and conclude the findings. Finally, the last segment will conclude our study by discussing the limitations and implications.

## **1.1. The corporate governance and employee engagement drivers**

### **1.1.1. Corporate governance**

Adam Smith introduced an underlying value of corporate governance (CG) (Smith, 1776), with the statement that "being the managers of other people's money rather than their own, it cannot be expected that they (managers) should watch over it with the same anxious vigilance that they would watch over their own. Negligence and profusion, therefore, must always prevail in managing the affairs of such a company." The concept of agency principle, which was initially put forth by Fama and Jensen in

1983, has become a widely discussed topic among accounting researchers and scholars. It emphasizes the importance of splitting ownership and management as a key aspect of corporate governance.

The most significant factor in creating opportunities for entrepreneurship is the impact of leadership. This is followed by decision-making and strategy, which ranked second and third, respectively (Jamali et al., 2018). Therefore, it is crucial to have a well-composed board at the organizational level to ensure good corporate governance and efficient management.

Corporate governance in modern times can be explored from various disciplinary perspectives. It encompasses a multitude of organizational factors, such as accounting, business ethics and law, economics, finance, human resources, and strategic management. While the number of CG pillars identified in the literature ranges from three to seven or even more, the board and management's commitment to implementing good CG is the most critical factor. Based on Jain and Jamali's (2016) framework, we have identified four levels of CG.

#### *1.1.1.1. The group level*

Regarding corporate governance, the group level focuses on the board's role in overseeing managers to prevent conflicts of interest. There are three critical components at the group level: the first is board composition and compensation; the second is audit committees; and the third is the internal audit function (Jain and Jamali, 2016). The makeup of the board is closely tied to the firm's committees and the internal audit system. Providing compensation to the board is a common way to resolve conflicts between management and investors. This compensation should consist of a combination of flat and performance-based components. In a one-tier system, the audit committee oversees executive directors' actions (Velte, 2023).

#### *1.1.1.2. The individual level*

CG focuses on the demographic and socio-psychological uniqueness of key upper management team members. The most notable personnel in a firm are typically the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO). Although there are other chief-level positions in operations and commercial, the first two are the most recognized as key upper personnel. This individual level of scrutiny examines the personal and professional qualities that contribute to the effective functioning of these leaders within the organization. Such attention ensures that top decision-makers possess the necessary competencies and traits to navigate the complex landscape of the business world. These characteristics may include factors such as narcissism or tenure and are carefully considered to ensure effective organizational decision-making and leadership. The significance of individual-level factors in the success and performance of a company cannot be overstated. These factors are crucial in shaping the overall outcome of an organization, highlighting the importance of paying attention to employees' attributes and characteristics. Therefore, companies must consider these factors when formulating strategies and policies to enhance organizational performance. Failure to do so may lead to suboptimal outcomes that could have been avoided if individual-level factors were taken into account (Jain and Jamali, 2016).

#### *1.1.1.3. The firm level*

When it comes to CG, the focus at the firm level is typically on ownership structure. This fact can include factors like block holding and ownership concentration (Jain and Jamali, 2016). CG involves essential aspects, and ownership structure is one of the most crucial components. There are various forms of ownership structures that an organization can adopt. These include institutional ownership, which involves ownership by corporations or other institutions; family ownership, where the business is owned and operated by family members; state ownership, which entails ownership by the government; and foreign ownership, whereby individuals or organizations from different countries own the business. Each of these ownership structures has its own unique benefits and drawbacks, and it is essential to consider them carefully before deciding on the best fit for the business. It is essential to comprehend and manage ownership structures appropriately to ensure effective CG, which can significantly impact the prosperity and longevity of a company. Therefore, carefully examining and analyzing ownership structures is vital for any business or academic institution aiming to enhance its CG practices. Previous research has concentrated on institutional ownership as the dominant factor in this category (Velte, 2023).

#### *1.1.1.4. The institutional level*

There are various levels of institutional involvement in CG. These institutions include political, legal, financial, and information systems. Political systems refer to the governing bodies that enforce laws and policies. Legal systems, on the other hand, are responsible for interpreting and enforcing laws and regulations. Financial systems encompass all the institutions and mechanisms that facilitate the flow of capital and credit within an economy. Lastly, information institutions collect, organize, and disseminate information to the public. Together, these institutions form the backbone of modern society, providing the necessary infrastructure for social, economic, and political development. Institutions encompass socially valued beliefs and norms that hold considerable sway over the governance and management of companies. It is essential to consider both formal and informal institutions when considering CG and how it can be improved (Jain and Jamali, 2016).

**Table 1** presents a comprehensive account of corporate governance variables categorized by board level, along with their respective descriptions. This synopsis provides readers with a lucid comprehension that corporate governance is classified based on board levels, whereby each level has its own unique variables (Jain and Jamali, 2016; Velte, 2023).

**Table 1.** The variables of corporate governance.

Board level	Descriptions
Group-level	<p>Board composition summary:</p> <p>The content delves into diverse factors that can impact the formation of political ties among executives, alongside their academic and professional qualifications. It also delves into the significance of board diversity, autonomy, and efficacy in deterring fraudulence and guaranteeing responsibility. Other considerations include the uniformity of executive backgrounds, their abilities and expertise, and their affiliations with external entities and social circles. Lastly, the piece explores the function of autonomous directors and their associations with founders, as well as the frequency and scale of board meetings and the proportion of independent directors located near a company's headquarters.</p> <p>Board compensation summary:</p> <p>Executive compensation is a critical aspect of corporate governance. Factors to consider when determining executive pay include claw-back provisions, managerial ownership, pay-to-performance sensitivities, supervisory board stock ownership, and tournament incentives. Claw-back provisions hold executives responsible for negative performance results. Managers with a significant ownership stake in the company are more likely to make decisions that benefit the company's long-term success. Supervisory boards play a significant role in executive compensation decisions. Tournament incentives can impact executive compensation and must be evaluated for their potential impact on employee morale and overall company performance.</p> <p>Audit committees summary:</p> <p>In order to ensure that audit and compensation committees are effectively managed, it is imperative that the individuals leading these committees possess the required expertise. Furthermore, gender diversity among members is crucial for promoting equitable decision-making. The efficacy of such committees is vital for identifying and resolving any concerns that may arise. Additionally, cultural diversity and independence should be taken into account, as varying perspectives can yield invaluable insights. Committees comprised of individuals with differing tenures can benefit from diverse experiences and knowledge. Finally, committees with independent tenures and multiple directorships can provide a more comprehensive understanding of the company and its operations, resulting in superior decision-making.</p>
Individual-level	<p>CEO/CFO characteristics summary:</p> <p>During earnings conference calls, the CEO's background, including their past military service, business degree, professional experience, and education, is often discussed. Additionally, traits such as hubris, narcissism, and over-confidence may be examined. The CFO's inside debt holdings, in-the-money option value, pay ratio, and equity-based compensation may also be scrutinized. Pay for performance, power, and outside directorships are other areas of potential discussion for both the CEO and CFO. Tenure and gender may also be factors, as well as social network connections, sensitivity, and directorship roles. Political connections of the CEO and chairman may also be examined, as well as their relationships with the top four non-CEO executives and directors. Finally, vocal markers of cognitive dissonance may also be noted.</p>
Firm-level	<p>Ownership structure summary:</p> <p>Within the realm of finance, there exist multiple ownership structures. One such structure is dedicated institutional ownership, which occurs when institutions hold substantial stakes in a company. Blockholder ownership, on the other hand, involves a single investor or group holding a significant portion of shares. Ownership concentration refers to the level of consolidation among a few investors, while diffused ownership occurs when no investor or group holds a controlling interest. Family ownership comes into play when a family is in control of a company, and foreign ownership occurs when investors from another country hold stakes. State ownership takes place when a government owns a company. Lastly, investors may hold differing opinions regarding a company's future prospects, based on factors such as financial performance or management team.</p> <p>Monitoring by other stakeholders summary:</p> <p>Companies can manipulate their earnings to portray higher profits, especially when the analyst forecast indicates it. However, it is essential to keep in mind that there could be a significant discrepancy between what analysts and auditors expect in terms of earnings. This difference could serve as a warning sign that further investigation is needed. In order to effectively monitor financial analyst coverage and avoid conflicts of interest, industry expertise is crucial. Additionally, the strength of labor unions and the quality of public governance can significantly impact earnings management. It is also wise to consider securities analysts' recommendations, as they can provide important insights into financial performance to help investors make informed decisions.</p>
Institutional-level	<p>Legal enforcement summary:</p> <p>The Public Company Accounting Oversight Board (PCAOB) conducts triennial and annual evaluations of accounting firms in the US to ensure compliance with auditing standards and identify areas for improvement. Additionally, the PCAOB limits the tax services auditors provide to maintain objectivity and independence. The Shareholder Rights Index, or G-index, measures the level of protection provided to shareholders across various countries. Finally, tax enforcement efforts are crucial in promoting tax compliance, ensuring compliance with tax laws, and generating revenue for governments.</p>

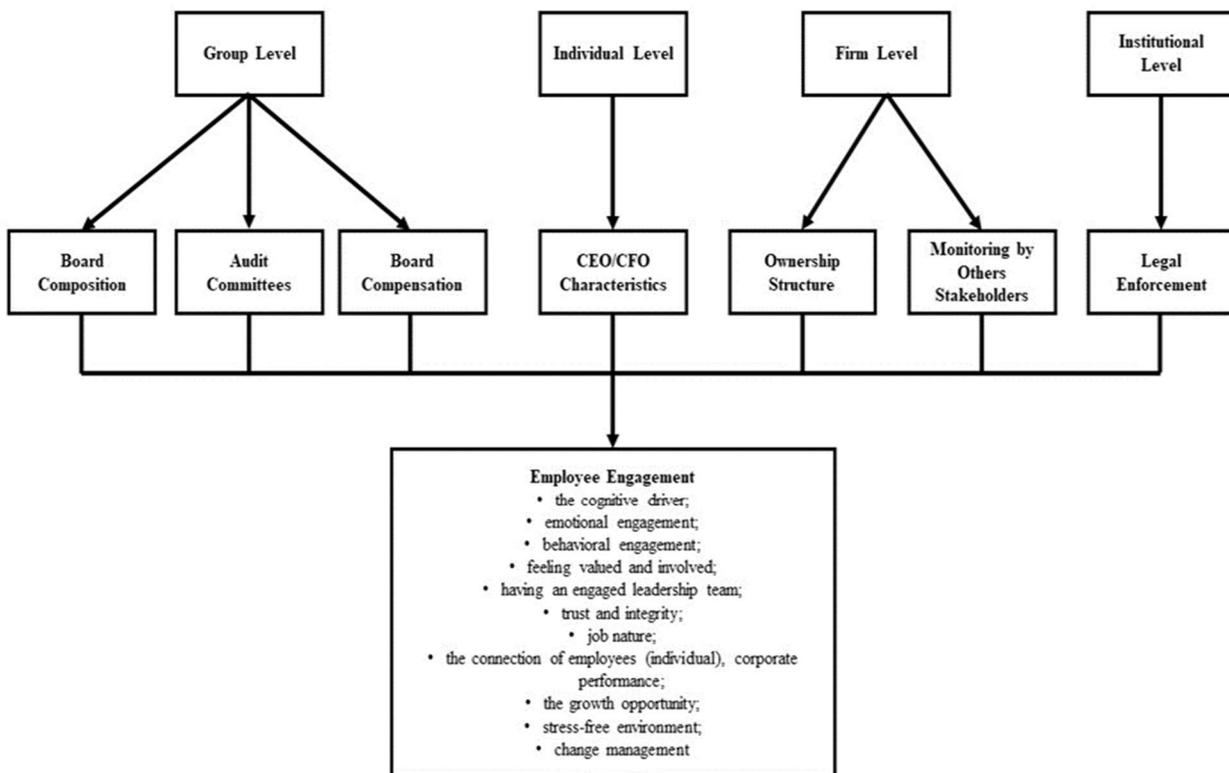
Source: Revised processed data from Velte (2023).

### 1.1.2. Employee engagement

Various vital factors significantly impact EE within an organization. These factors are behavioral engagement, emotional feeling, encompass cognitive, and the perception of being valued and included within the workplace. Additionally, a supportive leadership team, trust and integrity within the organization, the nature of the job, strong employee connections, corporate performance, growth opportunities for employees, a stress-free work environment, and effective change management strategies all contribute to EE. Organizations must consider and prioritize these factors to foster an engaged and productive workforce. The study highlights the importance of considering these factors to improve EE, as they are all crucial components that contribute to a positive and productive work culture (Imandin et al., 2015).

## 2. Methodology

The aim of this research is to review the literature on CG techniques implemented in the workplace. This analysis will specifically focus on the correlation between these techniques and the factors that drive EE. Our systematic literature collection approach is based on previous reviews conducted from 2009–2021 (Velte, 2023). We employ a mapping process to categorize CG drivers into EE drivers, utilizing an analysis of comparable drivers as identified by prior researchers. **Figure 1** presents our research framework.



**Figure 1.** Framework on corporate governance and employee engagement drivers.

Source: Processed data from the research.

### 3. Results and discussion

#### 3.1. Mapping results

**Table 2** provides a comprehensive summary of the publication year and CG variables contained in the paper. This overview gives readers a clear understanding of the key themes and trends that emerge from the research. By examining the data across different years and governance variables, readers can understand the components that impact CG outcomes. This table offers an easy reference for scholars and practitioners looking for an in-depth understanding of the CG's complexities in today's business landscape.

**Table 2.** Citation of published articles.

Publication and variables	Years and group levels
By publication year Total: ninety-eight	2021: 4
	2020: 11
	2019: 16
	2018: 17
	2017: 10
	2016: 10
	2015: 7
	2014: 4
	2013: 9
	2012: 8
	2010: 1
2009: 1	
By CG variables Total: ninety-eight	Group level: fifty-six
	Individual: thirty
	Firm: twenty
	Institutional: six

Source: Processed data from Velte (2023).

#### 3.2. Discussion on the linkage of corporate governance and employee engagement

##### 3.2.1. The group level

###### 3.2.1.1. Board composition

The board's expertise led to engagement because their impartiality and fairness led to employee trust (Verriest et al., 2011; Zhang, 2019). The more extensive board network, size, and meeting frequency mean there are growth opportunities for employees and the board's desire to listen to employees (Kong et al., 2019; Kuang and Lee, 2017; Mohd Salleh and Othman, 2016). Meanwhile, more prominent board age may lead to disengagement because older people's thoughts may be different from those of younger people working right now (Xu et al., 2017).

###### 3.2.1.2. Board compensation

The compensation of board members can affect how engaged and involved employees feel in an organization. Each employee has their own idea of fair compensation; therefore, they may disengage from the company's mission and values if they feel inadequate. Organizations need to factor in the impact of their board

compensation policies on building a positive and productive work environment (Armstrong et al., 2013; Zhang et al., 2018).

### *3.2.1.3. The function of committees and internal audits*

An independent and functional internal audit and committee creates a stress-free and fair working environment that promotes engagement (Khoufi and Khoufi, 2018; Marzuki et al., 2019). However, it is essential to note that a more extensive network, size, tenure, and meeting frequency of an audit committee may lead to disengagement as it can be perceived as a lack of independence by employees (Cheng et al., 2018; Omer et al., 2019; Wahid and Li, 2017).

## **3.2.2. The individual level**

### *3.2.2.1. CEO or CFO expertise, networks, power, and duality*

The CEO or CFO holds a crucial role in corporate governance as they make important decisions for the company. Suppose the CEO or CFO is an experienced professional with a vast network and a fair approach. This condition will lead to positive EE and offer growth opportunities in an encouraging work environment (Wu et al., 2012; Lisic et al., 2016; Altunbaş et al., 2018).

### *3.2.2.2. CEO/CFO compensation*

The compensation of key upper-level personnel can significantly influence employee engagement and overall satisfaction in the workplace. As with board compensation, individual employees may have varying opinions on what constitutes fair compensation for top-level executives and how it influences their sense of fairness within the organization. These perceptions can ultimately affect their commitment and motivation towards their work, highlighting the importance of fair and transparent compensation practices (Ghafoor et al., 2019; Natarajan and Zheng, 2017).

### *3.2.2.3. The negative traits of key upper teams' hubris, overconfidence, and narcissism*

When a key upper-team member exhibits hubris, overconfidence, and narcissism, it often leads to a disengaged workforce. This is because such leadership qualities tend to create an unfair and chaotic work environment where management becomes ineffective and inefficient. The negative impact of such behavior on employee morale undermines trust and respect within the workplace, leading to disengagement. Therefore, leaders must prioritize humility, self-awareness, and empathy to foster a positive and productive work culture (Ham et al., 2017; McManus, 2018; Presley and Abbott, 2013).

## **3.2.3. The firm level**

### *3.2.3.1. Ownership structure*

The type of ownership structure can have varying effects on employee perspectives towards their organization. However, studies have shown that ownership does not significantly impact how employees view their workplace (Sue et al., 2013; Shan et al., 2013; Inya et al., 2018; Ghafoor et al., 2019).

### *3.2.3.2. Monitoring by other stakeholders*

Regularly monitoring the performance of the organization leads to increased employee engagement. Employees must feel valued in creating a fair and supportive work environment with growth opportunities. This can be achieved by consistently monitoring stakeholder feedback (Bradley et al., 2017; Hopkins, 2017; Newton, 2018).

### **3.2.4. The institutional level**

Ensuring legal enforcement at the organizational level is crucial to promoting employee perceptions of fairness and engagement in their work. A fair environment can only be established when all aspects of the organization are aligned with legal regulations. This means that all policies, procedures, and practices must comply with the law, and any violations must be addressed promptly and fairly. By creating a legally compliant environment, organizations can foster a culture of fairness and promote employee engagement, which ultimately drives success and prosperity for both the employees and the organization (Khurana et al., 2020).

## **4. Conclusions**

In this review, we thoroughly analyze archival studies concerning how CG affects employee engagement. Considering the perspectives of employee engagement based on Imandin et al. (2015), consisting of 11 drivers, and corporate governance based on 98 archival studies conducted between 2009 and 2021 (Velte, 2023), this comprehensive analysis delves into how corporate governance can positively impact EE across multiple levels, such as group, individual, firm, and institutional. We can better understand how to foster a more engaged and motivated workforce by exploring these crucial aspects.

When it comes to ensuring a stress-free work environment and promoting employee trust, integrity, and engagement, the effectiveness of a firm's board and its audit committees' cannot be understated. By having a diverse and knowledgeable board, companies can ensure that all voices are heard and decisions are made with the company's and its employees' best interests in mind. Additionally, strong audit committees can provide transparency and accountability, further fostering employee trust and engagement. Ultimately, when a company prioritizes fair and equitable practices at the group level, it sets the foundation for a positive and productive workplace culture. In contrast, board compensation is linked to disengagement. When it comes to the individual level, CEO/CFO expertise, networks, power, and duality foster a valued feeling, a stress-free work environment, job nature, growth opportunities, change management, and fairness, which lead to employee trust, integrity, and engagement. Conversely, CEO/CFO compensation, hubris, overconfidence, and narcissism tie to disengagement.

At the firm level, monitoring by other stakeholders creates a sense of being valued and a fair work environment, leading to employee trust, integrity, and engagement. The ownership structure is also linked to engagement, although it did not significantly impact. At the institutional level, legal enforcement is vital in ensuring that all organizational activities are conducted according to legal law, thereby creating a fair environment that fosters employee trust and engagement.

To create or develop a successful business, it's important to ensure a good fit between the entrepreneurial opportunity and business model. This means designing a model that can capture market opportunities and evaluating opportunities that align with the business's strengths (Yadollahi Farsi et al., 2019). Therefore, this study adds to the existing research on the positive correlation between board structure and employee retention and engagement. The findings of this study contribute to our understanding of the compatibility between these two factors.

## 5. Future research

The study in question has noted a few previous studies exploring the connection between CG and employee engagement. However, it should be noted that the research results present a valuable starting point for more empirical studies that can corroborate the conclusions drawn here. By continuing to explore this topic, we can further refine our understanding of the relationship between these two essential factors in the operation and success of modern businesses. To enrich understanding of both board structure and employee engagement, future research can incorporate previous studies on the concept of international entrepreneurial orientation (Kazemi et al., 2019). Furthermore, future research on employee retention could benefit from incorporating research insights regarding the impact of enterprise architecture-driven dynamic capabilities and operational digital ambidexterity on enhancing business value (van de Wetering, 2022). This is particularly relevant in light of the ongoing COVID-19 pandemic and its aftermath.

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