THE ROLE OF INDEPENDENT DIRECTORS ON FINANCIAL REPORTING QUALITY: A REVIEW OF PREVIOUS RESEARCH

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ABSTRACT

As a result of recent national and international financial scandals, the financial information published by companies has often lost its credibility and transparency. In an attempt to regain confidence in the information produced and released by companies, a series of codes of good corporate governance have been published, with one of their main recommendations being that the Board of Directors be composed of external directors, particularly independent directors, given the role they can play in ensuring the production of quality financial information. Independent directors are those who, appointed for their professional and personal qualities, can perform their duties without being influenced by direct relationships with the company, its significant shareholders or managers. Therefore, this paper aims to review the literature which refers to the impact that independent directors on the Board of Directors have on the quality of financial reporting. The results revealed by the studies have mostly shown a positive relationship between the tasks performed by such directors and the quality and integrity of accounting information. However, it should be emphasized that the results documented in the studies carried out in a Spanish and Anglo-Saxon context differ somewhat, which could be explained by the legal, cultural, social and corporate governance culture differences, amongst others, which exist between the two countries.

Key words: Independent directors, Board of directors, Financial reporting quality, The Codes of Good Corporate Governance.

JEL Classification: G3, P43.

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1. INTRODUCTION

The Board of Directors (hereafter, the Board) is the decision-making body within the company which takes on, by delegation of shareholders, an essential role defined as that of "general supervision," which includes complete control and management of the organisation. The most important functions carried out by the Board are centred around three main responsibilities: to guide and promote company policy (strategic management), to control and manage the large corporations (control management) and to act as liaison between shareholders and senior management (communication management). The Board emerges as a control measure, since firms are continually increasing in size and becoming more complex in terms of management, which causes a breach between management and ownership.

In Spain, listed companies have improved the structure of corporate governance over time. The Codes of Good Corporate Governance, which have been published since 1998 until now, have played an important role. The first report on Corporate Governance, known as the Olivencia Report, was published in 1998, which promoted the presence of external directors on corporate governance bodies, on the Board in particular. It specifically proposed greater presence of independent directors, which led the National Securities Market Commission in Spain (CNMV) to draft a set of "Standard Regulations which relate to the Code of Good Governance for Boards" in May 1998. Since then, the CNMV has decisively influenced the general structure and content of corporate governance, encouraging a majority presence of external directors and, among them, independent directors. Hence, these recommendations consolidated the strict reorganisation of the Board to which the Financial System Reform Law (2002) has also required all listed companies with an audit committee. In addition, the Olivencia Report (1998) also recommended the establishment of nominations committees to the Board, with a larger proportion of independent directors.

In 2003 the Aldama Report, which replaces the Olivencia Report (1998),was published and outlines that the role of external directors, in particular the independent ones, would be reduced to the control of other Council members and to the representation of minority shareholders, in contrary to that outlined in the Olivencia Report (1998). And finally, in 2006 the Unified Code of Good Governance (CUBG), known as the Conthe Code, was published; a combination of the above two codes, i.e. the Olivencia Report (1998) and the Aldama Report (2003). The CUBG (2006), in terms of uniformity, provides for the concept of independent directors, concluding that "at least one third of the total number of board members" should be independent.

However, the recommendations made by the Codes of Good Corporate Governance are not always followed; as it happened, over time the independent directors represented a minority shareholder in comparison with the directors or those belonging to different categories. With this we wish to outline that the recommendations in the Olivencia Report (1998), which stated that “the presence of independent and proprietary board members should be proportional to the relationship between the percentage of capital held by shareholders represented on the Board and the floating capital or that held by investors,” were frequently disregarded.

The Board is composed of different types of directors differentiating between executive directors or internal ones and non-executive directors or external ones, where the latter are then separated into two categories, proprietary and independent. To later understand the core of this research, which focuses on independent directors, firstly we shall define briefly and concisely each one of the directors which comprise the Board. According to the CUBG (2006), directors who hold shares above or equal to the legally determined threshold for significant shareholdings, or who have been appointed due to their status as shareholders or representatives of such, are classified as proprietary (CNMV, 2006). Internal or executive directors are those directors who serve as members of senior management or are employees of the company or its group, while independent directors are those who, appointed for their professional and personal qualities, can carry out their duties without being influenced by company relations, its significant shareholders or management.

Therefore, the main distinction between external directors, which may be proprietary and independent, lies in their complete autonomy when performing their duties relative to the directors, significant shareholders (when they hold more than 5% of company capital) and the company as a whole.

The presence of independent directors on the Board has become a feature of Spanish listed companies, aligning the interests between management and shareholders, and therefore, reducing agency costs (Weisbach, 1988; Boeker, 1992; Hambrick and Jackson, 2000). This trend continues in American companies, where the latest review conducted by Business Roundtable (2007) highlights that 90% of companies state that at least 80% of their directors are independent. Business Roundtable (BRT) is an association of chief executive officers (CEOs) of leading US corporations. However, in recent years, studies such as Shen (2005), Finkelstein et al. (2008) and Hillman et al. (2010) have drawn attention to the desirability of incorporating board directors who hold significant stakes in the capital of the company, understanding them to be the proprietary director, a very distinctive figure in the Spanish business model.

After highlighting important aspects of Spanish companies in reference to their corporate governance, in particular to the Board, and defining the different categories of directors which comprise the same, we ask ourselves whether a greater presence of independent directors on the Board might help to increase the quality of financial information published by companies.

In line with this, works such as Baysinger and Butler (1985), Daily and Dalton (1993), Barnhart (1994) and Macvey (2005), among others, revealed that the presence of independent directors on both the Board and the Audit Committee positively influences the quality of financial information. Thus, the main conclusion reached by these studies was that increased quality of financial information, resulting from increased participation of independent directors on the Board, protected the interests of shareholders and avoided opportunistic management conduct.

In contrast, Jensen and Meckling (1976) and Bhagat and Bolton (2008) show that a larger number of independent directors on the Board adversely affects the quality of financial reporting. These results could be justified not only with the existence of agency problems, as a result of the divergence of interests between owners and managers, but also with the lack of managers' knowledge of key company aspects.

Works such as Hermalin and Weisbach (1991) and Dalton (1998), among others, revealed no significant relationship between the presence of independent directors on the Board and the quality of financial reporting. They state that the composition of the Board will be based on the ethics of corporate governance, i.e. paying little attention to whether there are more or less independent directors on the Board.

All those characteristics that lead to increasing the quality of financial information, regardless of the existence of a greater number of one or another type of director on the Board, could reflect the role of efficient company supervision as shown by Salas (2000) and Klapper and Love (2003), among others. It seems reasonable to suggest that thorough and efficient supervision by the Board can have a positive impact on the quality of financial information, given that a well organised structure within the Board seeks, among other things; the publication of relevant and reliable financial information to safeguard shareholders' investment and the company's assets and publish useful information so that those interested in its content can make the right decisions.

Thus, within this study we consider it appropriate to carry out an analysis, focusing mainly on the following hypothesis: Might the quality of the company's financial information be conditioned by a Board which is made up of a greater number of independent directors? We focus the study on this hypothesis, as we believe that it is one of the areas of research that has gained most importance in recent years because of its importance and the possible consequences, especially the economic ones, of poor quality financial information, and because previous evidence is not conclusive, as we have highlighted above, and which will be developed in more detail in the following sections.

Therefore, the aim of this study is to conduct a thorough review of previous literature to understand how the presence of independent directors on corporate governance bodies, and particularly on the Board, affects the quality of financial reporting.

The study is structured as follows. Following the introduction, a review of the bibliography of the existing literature from 1970 to 1990 on the impact of the independent directors on the quality of financial reporting. Then, in the third paragraph, we continue with the review of literature from 1990 to the present. Moreover, in each of the time periods, the evidence is organised as follows; we start with the main idea used as a basis by the authors, followed by the hypothesis presented and the conclusions which are reached. And finally, in the fourth paragraph, the findings and the inherent limitations of this study are shown.

2. BIBLIOGRAPHY REVIEW FROM 1970-1990: THE RELATIONSHIP BETWEEN INDEPENDENT DIRECTORS ON THE BOARD AND THE QUALITY OF FINANCIAL REPORTS

To analyse the relationship between corporate governance practices in companies, and in particular the presence of independent directors, and the impact that these directors have on the quality of accounting information, it is important to name the agency theory (Fama and Jensen, 1976 and Shleifer and Vishny, 1997). Above all if we pay special attention to large companies, where management and ownership are separated, and therefore, owners are unable to control all the movements made by managers or agents. There is a certain tendency for managers to manipulate the outcome to their own benefit. However, the problems associated with the separation of ownership and control were not so relevant or didn't catch the attention of researchers until the 1930's, when publications by Berle and Means (1932) and Coase (1937) came to light. However, some authors claim that the interests of managers and shareholders differ widely given that managers are people who go in search of prestige, money and power over the company, and thus try to impose their personal goals on the company, unlike shareholders who just seek financial benefits (Garcia, 2003). With all this we present the agency theory as the theoretical framework on which further evidence is later based.

The agency theory includes proposals for reform within the Board to include a certain percentage of independent directors. Undoubtedly this is a reasonable action that will lead to the independence of the Board, not only with respect to external events, but also on internal proposals from the management team, and in particular from the chief executive. Furthermore, transparency must be the main principle behind the Board's activities in order to build trust and improve the quality of financial information for external users. In this way, it helps companies portray a trustworthy image. Ultimately, the agency theory sees the Board as the primary mechanism for management control, which implies that the majority of its directors must be independent of management and the main objective of these directors must be their control over managers.

Following that we will present the results of that line of research which has studied the relationship between corporate governance and the quality of financial reporting between 1970 and 1990. Therefore, the analysis will focus primarily on the Board and in particular, on the supervisory role played by independent directors against the quality of financial reporting.

According to Fame (1980) and Jensen et al. (1983), the Board is a tool for monitoring managers, highlighting the presence of independent directors as a mechanism that enhances the effectiveness of the supervisory role of the Board, as they provide balance and help limit possible opportunistic management behaviour. The idea behind this study is that the structure of the Board should be made up mainly of independent directors and not employees or people close to them. This way, the elaboration of accounting information in favour of the interests of those on the inside, in order to obtain benefits, can be avoided. In short, the authors document a significant relationship between the characteristics of the Council, composed mainly of independent directors, and the integrity of accounting information.

Mace (1986) frames his research among those who see in the independent directors the capacity to improve the presentation of published accounting information. Thus, the independent directors become relevant within the supervisory role of the Board, not only by assuming independence from those that govern, but also by decisions made based on their experience and knowledge. In this sense, the author tries to show the positive effects of a large number of independent directors present on the Board and the quality of financial reporting. Mace (1986) concludes that the existence of independent directors on the Board gives more relevance and credibility to financial information, on the understanding that as the presence of the same on the Board is increased, higher quality financial reporting and transparency will be reflected.

Along the same lines, Weisbach (1988) hypothesised that Boards with a greater presence of independent directors have a positive impact on the quality of financial reporting, increasing it. The conclusion reached by the author strengthens this hypothesis, since the independent directors put greater pressure on managers, i.e. these counselors are considered a disciplinary measure on management.

However, unlike the findings obtained through empirical evidence mentioned above, we can see how the results are not always conclusive. Not all empirical evidence shows that Boards with a higher proportion of independent directors positively influence the quality of financial reports. Here, MacAvoy et al. (1983) hypothesised that the quality of accounting information isn't positively related to the proportion of external directors, particularly independent ones. The results show that neither the percentage of directors who do not hold an executive position in the company, nor the percentage of independent directors are significantly related to greater integrity of financial information. Therefore, we may conclude that the increased presence of independent directors on the Board does not increase the efficiency and quality of accounting information.

Shleifer et al. (1986) begin their research predicting that the directors forming the Board assume the role of traditional owners of the company and exercise more direct control over management, thus reducing the agency problem. However, they stress that among some of the features of external advisers, like their ownership of the company or time spent on the Council, help to reduce fraudulent accounting practices and thereby improve the quality of accounting information. Thus Shleifer et al. (1986) hypothesised that the increased presence of independent directors on the Board decreases the level of manipulation, and thereby increases the quality of financial information. In contrast to what has been observed in an Anglo-Saxon context, and which served as a basis for the recommendations of the Olivencia Report (1998), the results did not confirm the hypothesis raised by Shleifer et al. (1986), as it revealed that the presence of independent directors was positively and significantly related to the level of manipulation. Therefore, the authors concluded that independent directors decreased the quality of financial information.

Eisenberg et al. (1987) attempt to corroborate that a Board composed mainly of independent directors does not affect the quality of financial information, establishing this as the hypothesis under comparison. The authors reveal the existence of a negative and insignificant relationship between the higher percentage of non-executive directors, independent ones to be precise, and the presentation of financial information. In short, they document that what really has a positive effect, increasing the quality of accounting information is the higher percentage of executive directors. According to the authors, external directors are required mainly for independence from management, while internal executives or directors are those who are genuinely well informed about the company. In short, these authors characterise independent directors as those members of the Board with the ability or the power to help oversee and facilitate financial information.

Collins and Kothari (1989) attempt to show evidence of a negative relationship between corporate governance, including among other attributes the independence of the independent directors, and the quality of financial reporting. The authors defend the idea that the Boards composed mostly of independent directors give little credibility to financial information as these tend to perform supervisory work more efficiently than management (executive directors) in reference to an improvement in quality of accounting information. Therefore, the results showed that only those businesses with a higher class in terms of corporate governance experience significantly improve the quality of financial information, whether those directors who make up the Board are executive or non-executive. Moreover, the authors emphasise that under weak corporate governance, adding a large number of independent directors would only have negative effects, lessening the credibility and quality of the published financial information. In short, the evidence documents a negative relationship between independent directors on the Board and a higher quality of financial reporting. The authors argue that the inclusion of independent directors on the Board is not sufficient to increase the quality of accounting information, as it shows that the mere existence of these directors does not seem to deter opportunistic management behaviour, or the existence of fraudulent practices within companies. Ultimately, the authors conclude that the presence of these counselors does not entail greater credibility for those who might use the financial information.

3. BIBLIOGRAPHY REVIEW FROM 1990 TO PRESENT DAY: THE RELATIONSHIP BETWEEN INDEPENDENT DIRECTORS ON THE BOARD AND THE QUALITY OF FINANCIAL REPORTS

Following the same line of research while transferring it to the decade of the 90's to present, we start with authors like Romano et al. (1996) and Dalton et al. (1998). Both extensively review previous literature and support the hypothesis that external directors are always at a disadvantage in relation to the information available to management teams. Therefore, disciplinary action will only take place when the results are notoriously negative, i.e. the influence of external directors on conduct and results will only be visible when companies get into difficulties. The authors show that there is no empirical evidence which might establish a direct relationship between the composition of the Board, in particular, a higher proportion of independent directors, and the disclosure of quality financial information. Therefore, the authors conclude that the presence of independent directors on the Board protects the management team more than it disciplines it. We stress what has been discussed above and in particular "the independent directors on the Board protect more ...", because it may lead to incorrect interpretations. Thus, independent directors do not externally supervise accounting information, which refers us to their lack of independence from management, but they simply try to safeguard the owners' interests. This deters independent directors from their main responsibilities such as striving to prevent managers from producing fraudulent financial information, which would weaken the credibility and quality of the same, and also preventing opportunistic management behaviour, among others.

Beasley et al. (1996) highlight that the concern for implementing good corporate governance practices leads to the introduction of a higher proportion of independent directors on the Board. Thus, the authors suggest that the effectiveness of this mechanism, a majority of independent directors on the Board, can be measured through the reflected impact on the presentation of accounting information. Therefore, the authors hypothesise that the quality of financial information is positively related to the proportion of independent directors on the Board. The results confirm the hypothesis, since evidence shows that an increased presence of independent directors on the Board results in higher quality financial information. Therefore, according to these results it can be shown how good corporate governance practices contribute to the spread of a greater volume of accounting information, focused primarily on more relevant data for users and also presented in a way that it becomes more accessible, credible and transparent for them. Similarly, Weisbach et al. (2003) stress the dominant role that independent directors should play towards increasing the quality of accounting information, becoming guarantors of this. However, the authors highlight the possible lack of real independence of so-called independent directors, noting that if managers are involved in the hiring process, the independence of these directors remains in question. The hypothesis raised by the authors highlights how the existence and composition of the nomination committee affects the restrictive role that independent directors play in the manipulation of results, and therefore less transparency and quality of accounting information. Indeed, the results confirm the prediction that the composition of the nomination committee affects the role of independent directors, indicating that the real independence of these depends on who appoints them. The results show a negative relation between the level of manipulation and the proportion of independent members on the Board, when the company has a nomination committee composed of a majority of proprietary members. In contrast, the results document a positive association between the presence of independent directors on the Board and the quality of financial information, when the nomination committee consists of independent directors. In summary, the results obtained show that the presence of proprietary directors on the nominating committee is negatively and significantly related to the level of manipulation and also to lower quality financial information, while independent directors who form part of the nominating committee positively influence the quality of accounting information, when it is they who appoint independent members to the Board.

In line with earlier predictions, in order to strengthen the monitoring role to be played by independent directors, the Aldama report (2003) recommended the existence of delegated committees, responsible for appointing independent directors, among their functions. Similarly, the Olivencia report (1998) stated its concern at what was considered a wrong interpretation of the figure of the independent director, giving more emphasis to who they are rather than what they know.

Accordingly, the evidence within a continental environment like that of Fernandez Alvarez et al. (1998), reason how special supervisory work of the external directors is enhanced by their independence from management and by the incentives for carrying out their role, which includes protecting their reputation and possible legal implications arising from inefficient supervision. Therefore, the hypothesis posed is whether the independence of the Board favours the quality of accounting information. The authors document a positive and significant relationship between the tasks performed by independent directors and the quality of accounting information, while the role of the Audit Committee on the quality of financial information is irrelevant.

Continuing with the literature review, we consider it relevant to name Vafeas (1999), who pointed out from the outset that there is a positive association between the activities performed by independent directors and the quality of accounting information. Furthermore, he adds that the independent directors on the Board should take a more active position with respect to the other directors in order to safeguard the quality of accounting information. In this sense, Vafeas (1999) sets a contrasting hypothesis whether the influence of the independent directors might enhance the quality of published financial information. After the results were obtained it was shown that the fact of integrating more independent directors onto the Board has a positive impact on the quality of financial reporting. The author justifies this result on the grounds that independent directors are not linked to the ownership of the company and therefore do not tend to manipulate information to their own benefits.

In relation to the previous evidence revealed by Vafeas (1999), it seems relevant to incorporate the empirical theory contrasted by Kasnik (1999), which basically stresses manipulative practices. Specifically, he says that those factors of good corporate governance which lead to higher quality accounting information will be considered as those that limit the freedom of action of management, reducing the use of manipulative practices. Kasnik (1999) considers the independent directors on the Board as a measure of good corporate governance that can help to increase the quality of financial reporting.

Within the same line of research, Peasnell et al. (2001) attempt to show that independent directors and audit committees reduce the manipulation of benefits, particularly when there are incentives to do so. The authors argue that good corporate governance practices can reduce fraudulent activity and improve the quality of financial reporting. The results confirmed their predictions, since it was revealed that independent directors bring greater integrity to the financial information (less manipulated). Having an audit committee does not appear to directly affect such manipulation, but the independent directors are more efficient when the company has an audit committee.

Similarly, Klein (2002) and Xie et al. (2003) propose that the independence of the Audit Committee and the Board tends to reduce the manipulation of profits, thereby achieving to publish more quality financial information. After empirically contrasting the hypothesis, evidence reveals that both counselors and independent audit committees reduce manipulation, particularly when most of the members are independent (but not necessarily all of them). Therefore, the authors conclude that the presence of institutional investors (proprietary directors) in a lesser proportion than the independent directors also helps to reduce manipulation and improves the presentation of accounting information.

Similarly, Anderson et al. (2004) hypothesized in their work that the independence of the Board increases the quality of financial reporting. The paper concludes that the degree of independence does not show any relationship with the quality of accounting information, in contrast to the prominent role that literature, both theoretical and empirical (mainly Anglo-Saxon), attributes to the independence of the Board. That is, the evidence revealed by these authors confirms that a Board composed of independent directors is considered an instrument to safeguard the quality of accounting information. It is possible that this evidence derives from the presence of executives or proprietary directors on the Board, the lack of rotation of independent directors or both causes simultaneously, among other issues.

Anderson et al. (2004) and Carcello and Neal (2000) show the negative effects of the presence of independent directors on the Board on improving accounting quality. Carcello and Neal (2000), in contrast to Anderson et al. (2004) attribute the failure of the supervisory role of independent directors to the fact that these are not independent to the management of the business. Thus, these authors conclude that the presence of independent directors on the Board will only increase the quality of financial information when they have no links with the management of the organisation.

Bedard et al. (2004) propose that those companies that include solely independent directors on their Board will not be effective in carrying out their tasks of supervision and control. Therefore, Bedard et al. (2004) developed their research insisting that among some of the measures of good corporate governance, and in particular 100% independent directors, are not always a good determinant in monitoring managerial activity. Moreover, the authors also defend that a Board which consists entirely of independent directors is not an adequate measure for increasing the quality of published information or the credibility of such. The hypothesis that the authors present is the idea that the presence of independent directors on the Board reduces the quality of financial reporting. The results support the hypothesis, it is documented that the trend towards an increase in the number of independent directors on the Board, results in low levels of quality and transparency in financial reporting, due to the concentration of so many external directors.

Farber (2005) tries to ratify how weak corporate governance structures, based on a larger number of executive directors, are a necessary ally of fraud or manipulation of accounting information. Hence, several of the firms involved in accounting scandals in the United States exhibit little independence and activity on boards and committees and a weaker presence of experts on these supervisory and control bodies. The author also notes that in many large US companies the President of the Board is also the chief executive. From these findings, the author tries to corroborate that a large number of executive directors is associated with an increase in the manipulation of company accounts and thus less transparency and quality of financial information. The results confirm their hypothesis, documenting that the manipulation of accounting information is greater when members of the Board are linked to the management of the company itself.

It is also interesting to add to this study the accurate reflection of Pope (2001) and Young et al. (2005), who suggest that the effectiveness of the Board in the monitoring and supervision of the accounting function depends largely on the ability of the external directors to understand issues of accounting techniques. So it is hoped, since a significant proportion of external directors, especially independent ones, have held management positions in large companies or have developed long academic careers as auditors or advisors. In the Spanish case, according to the annual report by Spencer Stuart (2007) for 2006, 19% of independent directors in Spanish listed companies are entrepreneurs, 19% come from being chief executive at another company, 24% are retired executives, 20% are freelancers, 7% are academics and 2% ex-politicians.

Now, relating this assessment to corporate governance and its effect on the reliability and transparency of financial information, it is emphasised that the results presented for the Spanish context and those obtained in previous studies in an Anglo-Saxon context, primarily in terms of the role of the independent directors, do not lead to similar results, but differ substantially, establishing the United States and the United Kingdom as the main references in the Anglo-Saxon context. According to Recalde (2003), this is because business culture, the ownership structure of our companies and institutional characteristics are different.

Unlike the previous research work, we continue with the literature review presenting the evidence provided by Osterland (2004) and Ajinkya et al. (2005), which documented that the additional presence of independent directors on the Board allows for monitoring the quality of financial information and thereby enhances the credibility of the company in the eyes of those requiring accounting information. The role that such directors should adopt within the Board is to advocate transparency of information between shareholders and managers, which is one of their main responsibilities. Similarly, they focused the empirical test stating that a higher ratio of independent directors is associated with higher quality and quantity of accounting disclosure to interested groups. Ultimately, Osterland (2004) and Ajinkya et al. (2005) have validated the link between the two aspects, contrasting that the effectiveness of the Board represented by a larger number of independent directors is positively associated with the disclosure of quality financial information.

However, it seems appropriate to introduce as a second point of view some of the evidence which pointed to beliefs which were totally opposed to those previously named such as Haniffa et al. (2002), Rammer et al. (2006), Teitel et al. (2008) and Davila et al. (2009). That is, these studies did not reveal positive evidence regarding the implementation of the principles of good governance and the inclusion of independent directors on their Boards with respect to reporting and accounting manipulation. Therefore, the hypothesis on which they focus tries to show evidence of how directors on the Board, and especially independent ones, do not increase the quality of information. The results do not confirm the hypothesis since they reveal that the independence of the Board contributes to the council acting on the recommendations of good corporate governance, and in turn publishing less harmful accounting information. Therefore, the high degree of independence of the Board highlights two key issues: first, it leads to greater control over the company's activities;

secondly, it contributes to greater transparency due to the desire to maintain a good reputation.

Following this evidence, the research carried out by Duchin et al. (2010) states that when the Executive Director of the company, hereafter referred to as CEO, belongs to the nomination committee, or when no such committee exists, the listed companies will tend to hire fewer independent directors and more proprietary directors on the Board. Thus, the hypothesis raised by these authors is that the larger number of proprietary directors on the Board has a positive effect on the quality of financial information, while the presence of independent directors has no effect on it. Once the corresponding empirical analysis was concluded, Duchin et al. (2010) confirmed the hypothesis. The authors justify these results indicating that increasing the number of independent directors on the Board has no effect on the quality of financial information, since the Executive Director of the Company (CEO) dominates the selection process of the candidates and uses it to place his allies on the Board. In this case, the directors take on a decorative role, away from any monitoring task, helping the CEO to take hold in office.

Next we can see more recent empirical findings such as the work of Ho et al. (2011) and Barros et al. (2013). On the one hand, the theory developed by Ho et al. (2011) predicts that the proportion of independent members on the Board is inversely related to the level of manipulation and therefore to the quality of accounting information. To prove this hypothesis, the authors try to reason the various types of knowledge that an independent director may have of the organisation to which he is director in order to determine whether they contribute or not to increasing the quality of accounting information. It is true that the independent director is not usually aware, to the same degree, of the problems that can frequently arise within the company in comparison to executive directors, in other words they are not aware of those small particular details of the organisation as directors would be. But we can say that their role is different from the other directors on the Board. According to Ho et al. (2011), the independent directors may provide an improvement in the quality of accounting information with their knowledge about the sector, with their strategic vision, overseeing the work of the executives or ensuring social interest, among other issues. In addition, before making any major decision, the independent director is required to inform in detail of all its possible consequences and implications for each part of the business. For this reason you can not and should not generalise that independent directors lack the knowledge necessary to make important decisions within the organization. Ho et al. (2011)

conclude that both executive and non-executive directors and independent directors in particular, contribute to the management and improvement of the disclosure of accounting information.

Moreover, regarding the empirical evidence by Barros et al. (2013) it is assumed that the inclusion of independent directors on boards will improve the performance of the company given the recommendations of good corporate governance, and in turn, that this measure will provide better quality accounting information. Indeed, after the corresponding analysis of this assessment, a positive relationship between the percentage of independent directors on the Board and the quality of accounting information can be seen. Thus, the authors conclude that the presence of independent directors in comparison to other directors is an important control mechanism, since they provide security with regards to the interests of retail shareholders. In conclusion, an increased presence of external directors, particularly independent directors, counteracts the temptation of internal directors or executives to make decisions focused on their own personal benefit, putting a stop to the manipulation of accounts and therefore, leading to an increase in the quality of financial reporting.

In the Spanish context, García Osma and Gill de Albornoz (2007) hypothesise that the composition of the Board and the existence of the Audit Committee affect the quality of financial information published by Spanish listed companies. Findings from this study document a positive relation between the improvement and quality of accounting information and the structure of the Board without significant presence of the Audit Committee. Therefore, this study considers that the increased presence of non-executive directors, particularly independent directors, may be a good step towards publishing financial information with a high degree of transparency and credibility.

Gisbert et al. (2011) show that the greater the amount of accounting information presented voluntarily by the company, the more credible and trustworthy such information is seen, among other things because of the professional prestige of the independent directors present on the Board. So, an effective Board structure is closely linked to the improvement in the quality of financial reporting. Similarly, effective management supervision can only be carried out by someone completely unrelated to the management team. With this, the authors hypothesise that a positive relation between the percentage of independent directors present on the Board and the voluntary information offered by companies. Despite the findings, the results led to a contradiction of the thesis under question. Therefore, the results revealed that a higher percentage of independent directors on the Board did not have a positive effect with greater voluntary disclosure of information, and therefore did not contribute to increasing the credibility and quality of the same.

On the average Spanish Board, 30% of the Board members are independent directors (Sánchez and García, 2000). Thereafter several studies in other countries show evidence, in comparison, of the shortage of independent directors on Spanish councils. Examples of these studies are those by Anderson et al (2003) in the United States, whose data show that 52% of US Board members are independent directors on average. Also in a sample of US firms, Ashbaugh et al (2006) conclude that an average of 70% of directors are independent.

It should be noted that Spanish companies do not comply to the recommendations of CUBG (2006) which refers to the existence of at least one third of independent directors within the Board. Thus, "Spanish legislation gives each company complete freedom to decide whether to follow, or not, the recommendations of corporate governance, but it requires that, when they do, they disclose the reasons that justify their actions, so that shareholders, investors and markets may pass judgement." This allows us to detail the main difference between the European and American context regarding corporate governance measures contained in these codes. In other words, Europe has largely opted for the voluntary adoption of the recommendations contained in such codes while in the United States many of them are compulsory for listed companies. As evidence of these differences, one may consult the study by Heidrick and Struggles (2003) on the governance practices of the leading European companies, in which Spain appears towards the bottom of the list.

4. CONCLUSIONS.

The series of financial scandals in recent years and the global economic and financial crisis have lead to a lack of confidence in capital markets. To remedy this situation, regulatory organisations established codes of good corporate governance with an aim to improving the transparency of information and the management of corporate governance. Moreover, companies are affected by agency problems arising from the separation of ownership and control, creating a demand for internal and external mechanisms to increase supervision and control.

The aim of our study is to review the previous literature on whether an increased presence of independent directors on corporate governance bodies, and particularly on the Board, affects the quality of the financial information published by companies. To achieve our objective we focused the study on two time periods, from 1970 to 1990 and from 1990 to the present. So the question mentioned above "if a greater presence of independent directors ..." is established as the hypothesis in the different findings developed throughout the study. Therefore, we consider this to be one of the most important lines of research in recent years. The evidence reveals that the presence of independent directors on the Board can be positive, negative or have no impact at all.

The results have revealed that most findings show a positive and significant relationship between the proportion of independent directors on the Board, with respect to the rest of counselors, and an improvement in the quality of financial reporting. Among them we can mention authors such as Fama (1980), Jensen et al. (1983) and Mace (1986), within the time frame between 1970 and 1990. These authors agreed on two points: firstly that independent directors prevented opportunistic behaviour of both managers and internal members of the company; secondly, they agreed that independent directors not only improved the quality of accounting information, but also offered greater transparency and credibility to the public. However, authors such as Shleifer et al. (1986) and Eisenberg et al. (1987), in the same time period, concluded completely contrary results. These studies document that the improvement in the quality of accounting information is not associated with the presence of independent directors on the Board. The authors defend the idea that the Board should be mainly composed of executive directors, since they have the most knowledge of the company. In short, the non-executive directors, especially independent directors, merely supervise and facilitate information.

With respect to the results revealed in the time period from 1990 to the present, we can indicate a variety of conclusions based on the different results of the authors. Here we refer to very mixed results. Evidence like Vafeas (1999) and Carcello and Neal (2000), among others, which show a positive relationship between the independent directors on the Board and an improvement in the quality of financial information, as they are regarded as members of Board who are totally unrelated to the ownership of the company. However, it should be added that this is so in the case of real independence, which depends on who appointed them, as pointed out by Weisbach et al. (2003).

Finally, the results of Anderson et al. (2004) and Gisbert et al. (2011) should be noted, but with different positions to those previously discussed. Anderson et al. (2004) does not show any relationship between the degree of independence of the Board and the quality of accounting information, while Gisbert et al. (2011), despite initial predictions that pointed towards a positive effect between the two factors, their results showed that the presence of independent directors did not contribute to increasing credibility nor the disclosure of accounting information.

Finally, we should point out that this study has its limitations. We would like to emphasize that after a comprehensive review of previous literature with an aim to addressing many of the existing studies, we assume that the majority of them have remained unchecked.

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