

Abstract

In September 2008, world's financial system was almost brought down by a struggling global banking industry (The Economist, 2013). Banks, as major creditors and in some countries as major equity holders, play an important role as its complexity makes it different from the other industries. The complexity of banks has made it subject to more intense regulation than other firms (Andres and Valellado, 2008). However, the challenges in regulating the banking industry in turn lead to an initiative to deregulate banking industry, which was believed to let financial institutions, such as banks, to come back in the competition. However, this increase in freedom also had a significant downside, namely the increasingly speculative, high-risk activities of the financial sector, or in other words, financial sector failure. The failure of financial system brings out awareness of banks corporate governance, in which board of directors is one of the elements. An effective board of directors is expected to support the monitoring function of corporate governance in banking firms. Board of directors has several factors that can support its effectiveness, such as *board size* and *independence*. Research believed the independence of boards can be identified by two sub-factors which are *the existence of independent directors* and *CEO role duality*. Despite of the importance of board of directors in banks, the waves of regulation and deregulation of banks corporate governance throughout the years has left us with the question whether board of directors is really effective in controlling financial performance. Thus, the main question arises: "*What are the influences of board size and its independence on banks financial performance?*" Using literature review method, it can be concluded that two influencing factors that particularly become the focus of this study, board size and independence, which is identified by the existence of independent/outside directors and CEO role duality, do have both positive and negative relationship towards banks financial performance.