CHAPTER-1

INTRODUCTION

"The governance of the corporation is now as important to the world economy as the government of countries."

-James D. Wolfensohn

1.1 Corporate Governance: The Emergence and Exigency in South Asia

The term 'corporate governance' (CG), which found its official mention for the first time in the year 1976 in the Federal Register of the US, has been tantalising researchers across the globe over decades unceasingly by a hair's breadth, even anterior to the origin of its taxonomy. In simple terms, CG implies the set of regulations, customs, and processes that regulate how a firm is run. Effective CG establishes a framework for financial reporting, risk management, and decision-making to build long-term value for the firm while balancing the interests of diverse stakeholders. Time and again, CG has been christened under differing expressions by a great many researchers emanating from the genres of economic and legal literature (Škare & Hasić, 2016). Accentuating the agency problem, Shleifer and Vishny (1997) express CG as the expedient to reduce the agency issue, which is a possible conflict of interest between managers (agents) and shareholders (principals). According to them, CG implements controls to guarantee that management prioritises shareholder interests and protects their capital. Contemplating the wider horizon, Solomon and Solomon (2004) describe CG as the rights and obligations of various interest groups in the business and the manner in which they wield and share the same. Additionally, CG further entails balancing individual and group interests in addition to economic and social purposes (Claessens, 2006). This guarantees that businesses take into account both the wider societal consequences of their actions and their pursuit of profits. While many endeavours have been made to define the concept of CG; there yet does not exist one particular definition that encompasses all of the many scenarios. It, however, is undoubtedly perspicuous that most definitions can chiefly be segregated into two broad divisions – 'shareholder-oriented and 'stakeholder-oriented' (Gokhan-Gunay, 2008). Nevertheless, irrespective of the definitions, owing to its indispensable significance, CG as a subject, along with its models, has been in existence since the time businesses came into being. However, with an era of corrosive economic decline in the yesteryears, the area has witnessed a heightened gravity. For instance, in light of the concatenation that plunged the world into financial crunches, Mervyn King S.C., the Chairman of the King Report highlighting the escalating need for CG, stated that the "*global market forces will sort out those companies that do not have sound corporate governance*" (Green, 2005).

CG in Asia gained traction relatively lately, following the continent's financial meltdown in 1997 (Claessans & Fan, 2002). Referred widely as the 'Asian Contagion', the crisis had its tentacles extended in myriad phenomena. Thailand was the epicentre of this catastrophic economic collapse that engulfed East and Southeast Asia in the late 1990s. Thailand was obliged to depreciate the baht, its currency, due to its inability to maintain foreign exchange interventions as a result of a fixed exchange rate and a growing current account deficit (Wade, 2000). This created a ripple effect, leading investors to lose faith in other Asian currencies that had comparable weaknesses. The crisis brought to light underlying weaknesses in the region, such as an excessive reliance on short-term capital inflows for fast growth, deficient financial systems with loose regulations permitting financial institutions to take excessive risks, and rigid exchange rate regimes impeding competitiveness (Mishkin, 1999). Despite the havoc, this nonpareil turmoil struck the continent like a blessing in disguise by paving the way for the much-needed regulatory changes that had been procrastinated for long. The crisis that had impacted the East Asian countries grievously notwithstanding the South Asian and other regions of the continent, witnessed the inclusion of CG reforms as a response in the reform agendas. The facilitation of strong CG has been posited as the forerunner for reducing conflicts at the managerial level in emerging nations. It has further been surmised that in the prevalence of efficient CG practices the propensity of financial upheavals can also be truncated (Gompers et al., 2003). The international financial bodies, played an instrumental role in fostering the reforms not only in the crisis-hit nations but also in the other nations of the largest continent. This differential treatment in the reforms set out by the IMF and strengthened by other financial institutions was based on the fact that the crisis was induced by corporate and financial sector arrearage rather than the usual case of public sector indebtedness. The IMF attributed the Asian financial crises primarily to the weak CG across the continent. They argued that these frailties, rooted in deficiencies across corporate, financial, and government sectors, made Asian economies more susceptible to market fluctuations, external pressures, and the domino effect of contagion. (Gompers et al., 2003).

Following the financial crisis, Asian nations demonstrated an ideological transformation towards the Anglo-American model of CG (Samanta, 2019). However, researchers argue that this approach may not be ideal as the Asian economy is significantly different from the Western setting. For instance, contrary to Western countries, family ownership is common in Asia, resulting in concentrated power but possibly minimal independent scrutiny. Furthermore, state-owned enterprises play a significant role in various economies, generating concerns about political influence on transparency and decision-making. Finally, Asian firms frequently have a huge overlap between ownership and top management, which may influence the employment of professional managers. These distinguishing characteristics indicate that Asian firms may behave and perform differently from their Western counterparts (Bhatt & Bhattacharya, 2015). While efforts are continuing to increase transparency and line with best practices, consideration of the specific Asian context for CG is critical. Developing on this notion, several studies have started taking shape in recent times on CG in Asian countries in line with their contemporaries. With the Asian market making considerable strides in the global economy in the wake of heightened global integration, the area has received further impetus (Peng et al., 2022).

The emerging South Asian economies, however, trail far behind in this regard (Masud et al., 2018). Furthermore, contrary to its counterparts, CG has a frailer prominence in the South Asian band of countries. To elucidate, this weaker presence of CG mechanism in South Asian firms can be attributed to several factors. To begin with, a sizeable number of firms in the region are family-dominated or controlled by majority shareholders. This concentrated ownership structure restricts the implementation of effective CG standards (Masud et al., 2018). A weak regulatory environment coupled with a high degree of corruption, lack of transparency, and a heavy reliance on international aid further hinders the efficient enforcement of CG in the region (Masud et al., 2017). Additionally, compared to their counterparts, South Asian corporations receive less external pressure to strengthen CG. The entities in the region face limited scrutiny from activist NGOs, environmental groups, and international organisations owing to the lesser presence of such third parties. Compounding on this, shareholder activism also tends to be lower in the region (Ganapathy & Kabra, 2017; Subramaniam et al., 2017). This lack of external pressure facilitates corporations to function with less stringent governance frameworks.

Nevertheless, in the recent decade, several nations of the South Asian region have taken steps to bring about some elemental changes in their CG structures to improve the situation. These advancements have opened up new avenues for study that have yet to be completely addressed. However, translating these regulations into robust legal and regulatory regimes for the region remains a work in progress.

1.2 Audit Quality, Board Diversity and Firm Performance: A Tapestry of Governance

It is widely acknowledged that CG serves as a tool for harmonising the varied goals of shareholders and management. This can be attributed to the proposition of several scholars who conclude that effective CG translates to better management and resource allocation. Fooladi and Shukor (2012) establish in their study that the value gained by efficient use of CG can be quantified using firm performance (FP) as a benchmark. Scholars have repeatedly linked numerous CG characteristics to FP, including the board of directors, ownership structure, disclosure, and audit (Mardnly et al., 2018).

As a result, several hypotheses and models have been proposed to rhetorically explain the apocryphal relationship between CG and FP. Among them, the pathbreaking agency theory proposed by Jensen and Meckling (1976) tops the chart. This theory is said to represent the core idea of all other theories related to CG. As per this view, CG may be seen as an agency relationship, which is characterised as a contract wherein the principals appoint agent to perform assignments on behalf of them. However, the agent may surrender to self-interest and opportunism, falling short of the principal's performance standards. The theory thus proposes that the agents must be called to account for wielding their tasks and obligations, and any maleficence should be corrected by mitigating punishments. Stressing its importance, Fama and Jenson (1983) argue that in the presence of ineffective CG, the interests of managers and shareholders can collide due to the separation of ownership and control. Among the other notable theories, the stakeholder model, proposed by Freeman (1984), presents a managerial vision of the organisation in which top management must satisfy the requirements of all stakeholders. This theory believes that all stakeholders' interests have inherent worth, and no group of interests are believed to be more crucial than the others. Another contemporary theory is the transaction cost theory proposed by Williamson, one of the cardinal proponents of 'new institutional economics'. Williamson argued that the firm is in itself a governance edifice that must deal with a variety of contractual risks to create value for itself (Dugger, 1983). While the theory of Williamson is more predisposed towards the internal structure of a firm, the theory proposed by Pfeffer and Slancik (1978) is appertained towards the external resources in the occupation of a firm. The theory posits that by means of their connections with the external world, directors play a crucial role in delivering or acquiring essential resources to a firm. Subsequently, the availability of such resources improves organisational effectiveness, as well as the firm's survivability. For such a pivotal role played by them, the directors of a firm are also attributed as resources of paramount importance (Hillman et al., 2000).

Despite their differences, these theories together form the essence of CG. However, to supplement these theories, researchers have also brought into bargain various models of CG over time. For instance, the finance model advanced by Shleifer and Vishny (1997) supplements the resource dependency theory. Further, the behavioural agency model postulated by Wiseman and Gomez in 1998 fragmentarily draws its breath as an admixture of Williamson's transaction cost theory and Pfeffer and Slancik's resource dependency theory. Nevertheless, all the theories and models, from the different internal and external perspectives that they project, together integrate to establish CG as an intrinsic element for the efficient functioning of any firm.

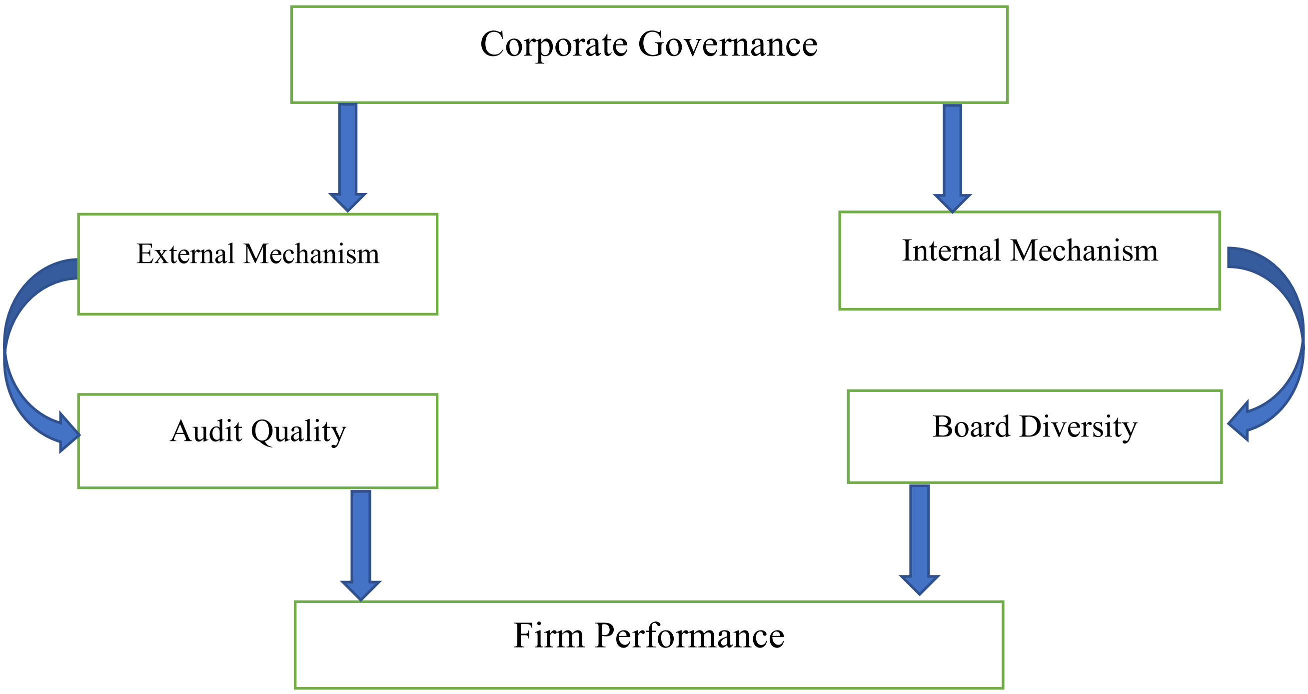

Figure 1.1: Broad Framework of the Study

Source: Author's Design

In this scenario, while audit quality (AQ) has been established as an external yet pivotal characteristic of CG (DeFond & Francis, 2005), board diversity (BD) remains its inherent idiosyncrasy (Sarhan et al*.,* 2019). This study is an attempt to add to the existing body of knowledge by exploring the different dimensions of both the internal and external wings of CG via the means of a cross-country analysis in the relatively less explored SAARC (South Asian Association of Regional Cooperation) nations. Figure 1.1 illustrates the broad framework developed for the present study.

1.3 Audit Quality: The Cornerstone of Financial Transparency

AQ is the possibility that an auditor will find and disclose misstatements, according to DeAngelo (1981). It implies that an auditor must identify and disclose misstatements, since this would demonstrate his independence and competence—the two qualities that sum AQ (Canegham, 2004). Further, in the opinion of Simunic (2003), AQ is the likelihood that when an auditor issues an unqualified opinion on a firm's financial status, the results are given without bias.

Financial transparency, the cornerstone of well-functioning capital markets, hinges on the reliability and credibility of financial information. This information serves as the foundation for investor decision-making, credit risk assessment, and efficient allocation of resources. Furthermore, financial reports remain the trustworthy primary source of public information in emerging nations, as opposed to media releases or financial analyst updates that are easily and frequently available in most advanced nations. As a result, the importance of financial reporting quality in emerging countries is arguably more obvious than in developed countries (Baatwah et al., 2015). Consequently, high-quality audit reports in these marketplaces can improve decision-making and decrease information asymmetry, favouring the FP (Ben-Hassoun et al., 2018). Thus, the function of external audits in enhancing publicly traded firms' financial reporting and ensuring transparency is undeniably quintessential. For a variety of stakeholders, including investors, regulators, and firms, to make defensible judgements based on trustworthy financial information, they must comprehend how AQ affects FP.

Furthermore, the fact that corporate scandals have flamed the interest of diverse stakeholders in the already enkindling area of AQ cannot be considered a hyperbole (Al-

Ahdal & Hashim, 2021). The crusades of audit failure that rocked the Western world even followed the emerging South Asian subcontinent.

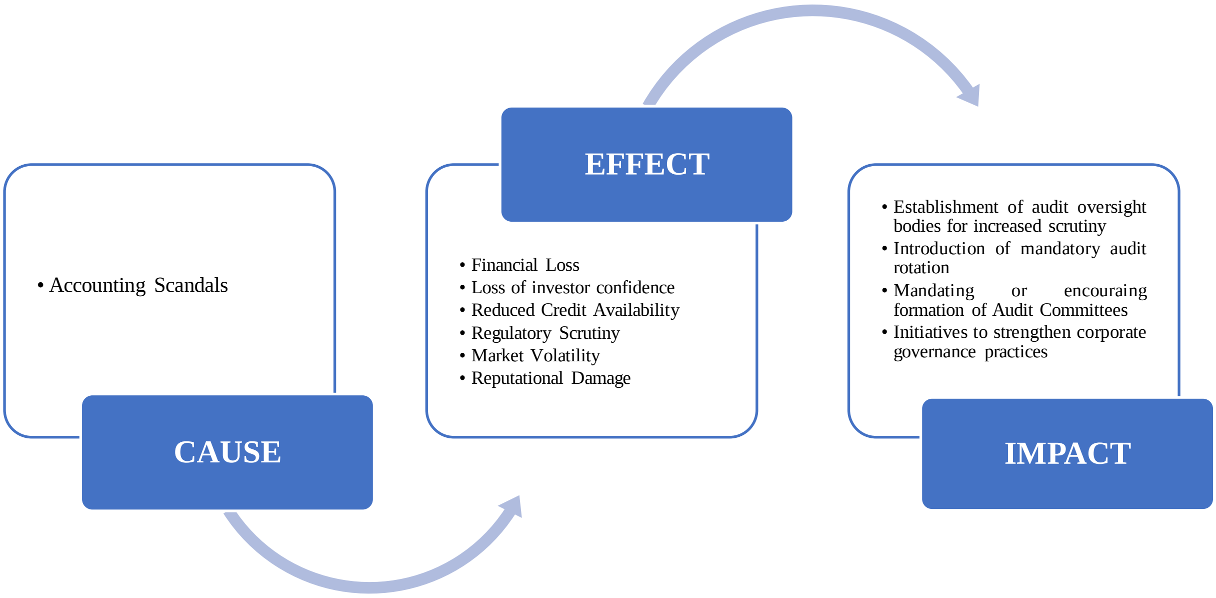

Figure 1.2: Accounting Scandals and Their Effects and Impact

Source: Author's Design

Figure 1.2 articulates the effects of accounting scandals on the diverse stakeholders and the steps taken to curb the same by the various nations in the SAARC region. It can be witnessed that various regulatory measures include the establishment of audit oversight bodies (for instance, the establishment of the National Financial Reporting Authority in India following the aftermath of the Satyam Computers Scandal), encouraging and mandating the formation of audit committees in firms led by independent directors to strengthen internal control, enforcing mandatory audit rotation to strengthen auditor independence and encouraging robust CG practices.

As per the agency theory of CG, AQ is an important external oversight approach to mitigating information asymmetries and bolstering stakeholder confidence (Matoke & Omwenga, 2016). AQ is seen as critical to a strong equity market since it is thought to significantly improve the efficacy of CG processes (Chow, 1982), hence positively impacting FP (Al Ani & Mohammed, 2015).

1.4 Board Diversity: The Rising Tide in SAARC Nations

The board of directors is elemental in running an organisation efficiently because it provides a strategic focus and influences the performance of the firm (Srivastava, 2015). Regulators have appreciated the necessity of comprehending the function of diversity over time. Highlighting the exigency of BD, the 2014 UK CG Code posits that BD can bring onboard constructive debate drawing upon its prismatic nature. The Code postulates that while representation on the basis of demographics is quintessential, diversity of expertise and experience needs to be cultivated as well (Carter et al., 2003). This broader perspective enriches the board's calibre to engage effectively with key stakeholders and navigate the complexities of implementing the business strategy (Financial Reporting Council, 2014).

Regulators and researchers across the continents acknowledged the necessity for legislation to modify the composition of boards of directors in the aftermath of global financial havoc (Baker et al., 2020). This notion also finds substance in the upper echelons' theory, according to which having a diverse board expands the board's knowledge resources, boosts the board's ability to discover strategic possibilities, helps design effective strategies, resolves disagreements, and improves FP (Hsu et al., 2019). Contradictorily, several studies also posit that BD might also have unenthusiastic repercussions (Ammann et al., 2011). To illustrate, research in social psychology reveals that diversity causes board members to dispute more, which slows down decision-making (Triana et al., 2014). Elucidating the belief Eulerich et al. (2014) further state that increased BD leads to the formation of in-groups and out-groups, which can reduce communication, complicate decision-making, and harm group cohesiveness. This argument was backed by Hambrick et al. (1996), who claimed that a homogenous group of directors acts more quickly and efficiently than a diverse equivalent. Furthermore, Smith et al. (2006) argue that diverse boards with a broader range of ideas and critical perspectives may result in longer decision-making procedures. This might be a disadvantage in fast-paced, competitive workplaces where quick reaction to market developments is essential.

In the SAARC countries, the composition of corporate boards is changing drastically, with a greater focus being placed on BD. Numerous elements come together to promote this tendency. In this instance, regulatory demands from the CG laws over the past ten years are fundamental and mandate BD across the SAARC countries. For example, women's representation on boards is mandated by Pakistan's CG Code, 2019 and India's Companies

Act, 2013. The fact that SAARC countries are going through rapid social and demographic changes, including rise in the representation of younger generations and a growth in the engagement of women in the workforce, makes this even more pertinent. Furthermore, stakeholders view boards that represent these shifting demographics as more reputable and relevant.

1.5 SAARC Nations: Beholding the Untapped Potential

The unfolding of the Industrial Revolution, which began in the 18th century, witnessed burgeoning strides of development over the past decades. The trajectories of this development were dominated by the Western nations until the 1980s. However, the locus of this economic dynamism gradually shifted towards the emerging economies in Asia, including those in South Asia (Samanta, 2019). This development was unfortunately truncated by the financial crisis that hit the Asian continent in 1997. As an aftermath of the contagion, erosion of investors' confidence in the region was evinced. Consequently, to keep afloat in the global economic turf, the Asian continent ushered in the winds of change in the regulatory frameworks of its economies. Pertinent among these changes was the emphasis on the development of robust CG practices (Kirchmaier & Gerner-Beuerle, 2021). In this regard, a shareholder-value model based on the Anglo-Saxon system was suggested for the emerging countries in the region attuned to that of its other Asian counterparts. The underlying belief was that enforcing a shareholder primacy model would stimulate the financial market and attract foreign investment. This, in turn, would further spur the confidence of the local investors, bolstering the growth of the markets. The study by Samanta (2019), however, offers contradictory evidence. It postulates that the adoption of a pro-shareholder value model in developing nations has little effect on the expansion of financial markets. Furthermore, it attests that the developing countries are being forced into a one-size-fits-all model that benefits foreign investors and domestic elites, but, in the long run, it may irreparably harm the country's innovative capacity by allowing excessive rent-seeking on the part of investors. Providing substance to the same, extant literature emphasises the significance of factors like institutional reforms, technical innovations, capital accumulations, and well-crafted fiscal, economic and trade policies in addition to robust CG practices in fostering growth in the region (Bhattarai, 2016). This entails that it is time to think beyond the existing shareholder primacy CG paradigm.

Over the past 40 years, Asia's average growth rate has been 7 to 8 per cent, which is twice the world average and three times or more than that of the EU economies. One significant contributor in this regard is the SAARC region. Established on 8th December 1985 by the signing of the SAARC Charter in Dhaka, Bangladesh, SAARC is a regional intergovernmental organisation encompassing the eight states of Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. It was set up with the goal of fostering regional and economic cooperation among its members. According to the Asian Development Bank (2019), SAARC has emerged as the global leader in economic growth. The region's average growth rate has soared from 3 per cent in the 1970s to nearly 7 per cent in the most recent decade. The same can be witnessed in the upward trend exhibited by the GDP of the South Asian region in Figure 1.3. Furthermore, the International Monetary Fund estimates that the region, spearheaded by India and Bangladesh, contributes close to 15 per cent of global growth (World Economic Outlook, 2023).

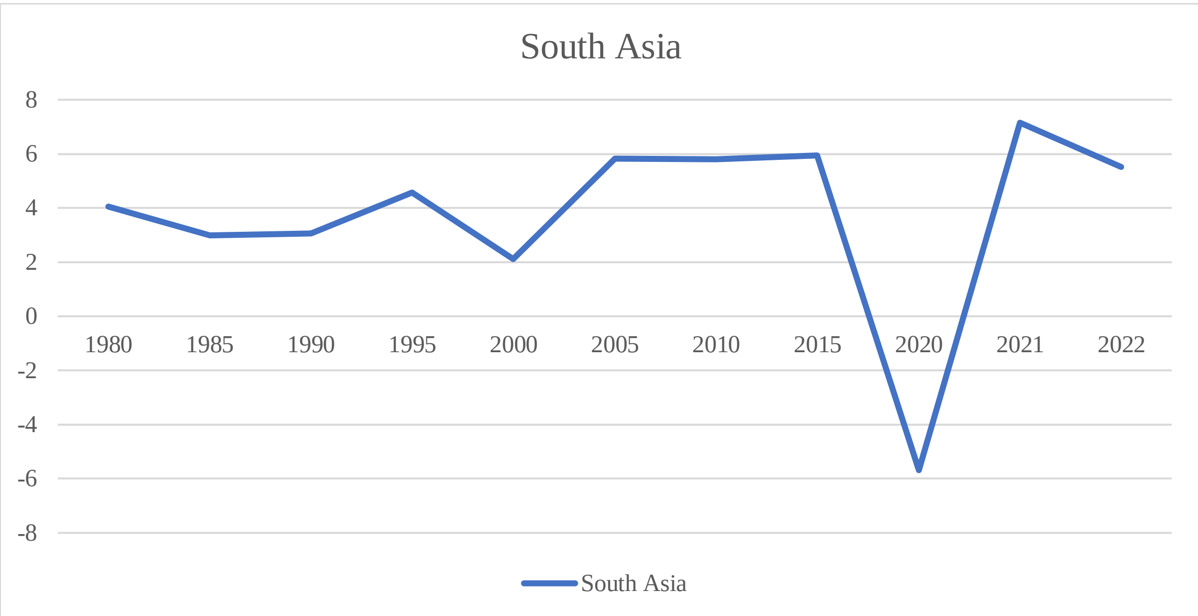

Figure 1.3: GDP (per capita growth in per cent) Trend of South Asia

Source: World Bank

Table 1.1 provides an account of the annual average growth rate of GDP of the SAARC member states. Barring occasional nose-dives and the shock from COVID-19, the nations have witnessed growth in their GDP. In this regard, Afghanistan is an exception, as it suffers from political instability.

Table 1.1: Annual Average Growth Rate of GDP (in per cent)

Country	Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
1980	-	-1.61	-	4.34	-	-4.58	5.81	3.98
1990	-	3.40	7.56	3.29	-	2.12	1.07	5.07
2000	-	3.30	0.50	1.96	2.21	4.39	1.10	5.-4
2010	11.09	4.37	10.70	7.01	3.13	4.29	-0.75	7.04
2020	-5.36	2.27	-10.80	-6.72	-34.20	-4.08	-2.97	-5.12
2022	-22.96	5.95	3.75	6.51	13.39	3.84	2.72	-7.92

Source: World Bank

This rapid rise has led to increased foreign direct investment (FDI) in the region, bringing into the bargain the need for effective CG a priori (Fooladi & Chaleshtori, 2011). The trend of FDI inflows can be vividly observed in Figure 1.4.

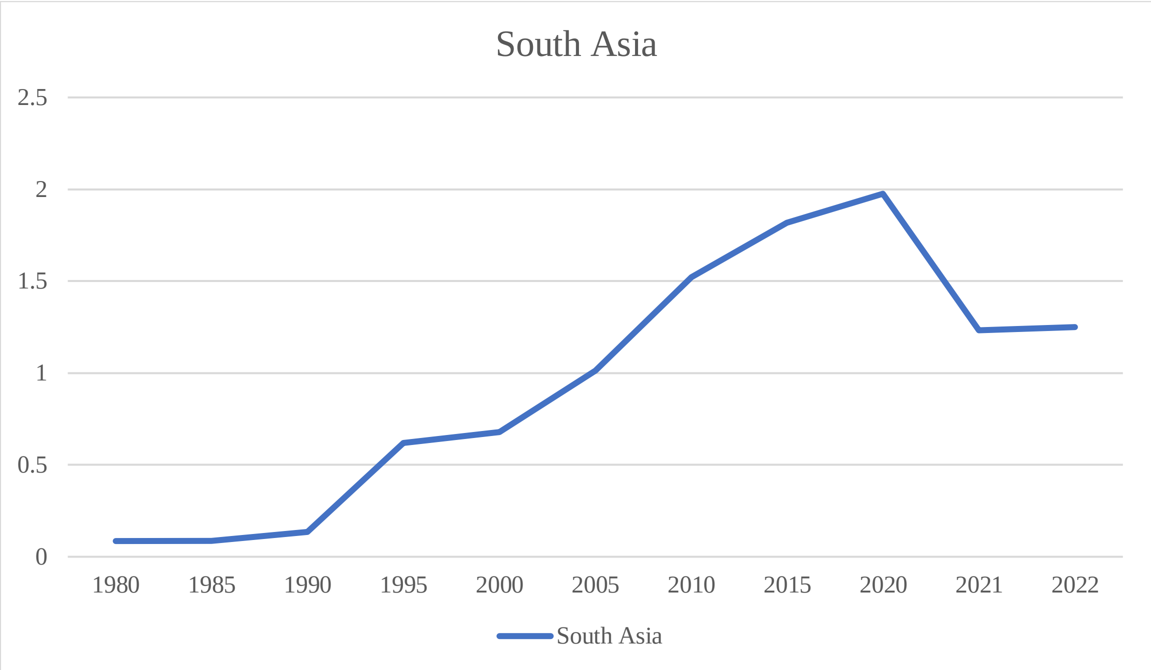

Figure 1.4: Trend of FDI net inflows (as percentage of GDP)

Source: World Bank

Table 1.2 outlines the inflow of FDI in the region. It can be observed that there has been a continued inflow of investments into the SAARC member states over the last few decades.

Table 1.2: FDI Net Inflows to GDP (In per cent) of SAARC Nations

Country	Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
1980	0.25	0.05	-	0.04	-0.31	0.02	0.27	1.07
1990	-	0.01	0.53	0.07	2.60	0.16	0.61	1.54
2000	-	0.59	-	0.75	3.57	-0.01	0.42	1.06
2010	0.47	0.91	1.20	1.60	10.14	0.55	1.14	0.96
2020	0.06	0.41	-0.11	2.41	11.87	0.37	0.68	0.51
2022	0.14	0.35	0.24	1.46	11.69	0.16	0.37	1.21

Source: World Bank

To sustain and capitalise on these developments, the South Asian economies have undergone numerous reforms over the last decade to develop an effective structure of CG. The corporate governance mechanisms within SAARC have undergone significant and fundamental changes as a result of ongoing oversight by the World Bank and the national governments of SAARC member states, as well as a number of international initiatives like the Asian Roundtable on CG (Kirchmaier & Gerner-Beuerle, 2021). Table 1.3 outlines the overview of the CG codes:

Table 1.3: CG Code in SAARC Nations

Country	Code	Issuer	Year
Afghanistan	None		
Bangladesh	CG Code	Bangladesh Securities and Exchange Commission	2018
	Code of CG for Bangladesh	Bangladesh Enterprise Institute	2004
Bhutan	None		
India	CG Voluntary Guidelines	Ministry of Corporate Affairs	2009
	CG Recommendations	Confederation of Indian Industry	2009
Maldives	CG Code	Capital Market Development Authority	2014
Nepal	None		
Pakistan	Code of CG	Securities and Exchange Commission of Pakistan	2019
Sri Lanka	Code of Best Practices on CG	Securities and Exchange Commission of Sri Lanka	2017

Source: Adopted from Kirchmaier and Gerner-Beuerle (2021)

However, the OECD (2019) provides that despite the evolving scenario of regulatory reforms, the SAARC nations still suffer from weak monitoring of suspicious corporate activities. They underpin this lacuna in corporate monitoring and control, both internal and external, as a 'blind spot' in the CG mechanism. The following is a status quo of the CG landscapes of the select countries under study (the rationale behind selecting the four countries is explicitly underscored in chapter three):

Table 1.4: CG Landscape of the Select SAARC Countries

Basis	Bangladesh	India	Pakistan	Sri Lanka
CG regime	CG procedures are governed by the Bangladesh Securities and Exchange Commission (BSEC) and the Bangladesh Companies (Amendment) Act, 2020.	CG is governed by the Companies Act of 2013, as well as the Securities and Exchange Board of India (SEBI).	CG is governed by the Companies Act 2017 and the Securities and Exchange Commission of Pakistan (SECP).	CG is governed by the Companies Act, No. 7 of 2007, and the Securities and Exchange Commission of Sri Lanka (SEC).
Key features of CG reforms over the years	Mandatory independent directors, audit committee and corporate social responsibility reporting.	Mandatory independent directors, women directors, audit committee, distinct CEO and chairman duties, and mandatory disclosures.	The inclusion of independent directors, women directors, audit committees, and mandated disclosures are among the key features.	Independent directors, audit committees, and obligatory disclosures are all important aspects of CG procedures.
Challenges	Inadequate enforcement of rules worries about political meddling and the limited authority of regulatory agencies (Chowdhury & Islam, 2022; BSEC, 2023).	Concerns regarding related party transactions, insufficient regulatory enforcement, and compliance with corporate social responsibility (SEBI, 2023; NFRA, 2023).	Insufficient regulatory enforcement, restricted access to financing, and worries about government influence on firm operations (World Bank, 2023; SECP, 2023).	Concentration of ownership in family-controlled enterprises, lack of transparency in related party transactions, and worries about corruption (SEC Sri Lanka, 2023; World Bank, 2023).

Source: Author's Compilation

A cursory look at the CG reforms in the SAARC region reveals an uneven landscape. While some countries, like India and Pakistan, mandate women's representation on the board and require companies to have audit committees, others are yet to implement such measures. Similarly, Bangladesh completely bans the joint provision of audit and non-audit services, whereas India only restricts certain types. These variations highlight the need for further research to understand the factors influencing the pace and nature of CG reforms within SAARC. Additionally, every SAARC nation has peculiar economic difficulties, such as restricted access to funding or reliance on specific sectors, which hinders the robust implementation of CG practices. In light of such developments and diversity in the CG mechanisms of the SAARC member nations, a beau idéal testing ground for research comes into emergence (Kagzi & Guha, 2018). As the region strives towards deeper economic integration, a comparative analysis of the two CG idiosyncrasies, AQ and BD, across the region may further act as a valuable catalyst for harmonising auditing practices and enhancing board structures.

1.6 Research Gaps: Unveiling The Unexamined Territories

Deriving from the paucity in the extant literature, several research gaps have been identified for the purpose of the study.

i) *Inadequacy in CG literature*: To start with, the relative meagreness of research on CG in South Asian nations (Vinjamury, 2020) is elemental in spearheading this study. Global integration being a neoteric phenomenon in the sub-continent, the area of CG fails to garner buoyant work unlike its de nos jours. However, with the South Asian region continuing to be the fastest-growing sub-region across the globe, registering a seven per cent annual average growth rate (Asian Development Bank, 2023), research focus in the region has become the need of the hour (Kirchmaier & Gerner-Beuerle, 2021). To contribute to the ongoing colloquy on CG, the present study takes a fresh approach by addressing the peculiarities of firms in the region and accounting for untapped attributes of CG.

ii) *Unique ownership structure:* Second, contrary to their developed counterparts, the capital markets in SAARC nations are categorised by concentrated ownership patterns (Ho & Kang, 2013), restricted transparency (Wang, 2006), and long-term perspective (Imam & Malik, 2007). While concentrated ownership can heighten the information asymmetry between majority and minority shareholders, a lack of transparency can hinder the confidence of investors. Furthermore, investors in the SAARC capital markets have a propensity to have longer investment horizons, as noted by Imam and Malik (2007). This contrasts with developed markets' tendency to emphasise short-term profits and has the potential to impact organisational goals and risk appetite. In such a scenario, the direct adoption of established CG models becomes difficult. This study intends to bridge a gap in literature by documenting empirical evidence of the impact of AQ and BD on FP while accounting for these peculiarities. The findings may provide valuable insights for policy-making and investor decision-making.

iii) *Principal-principal dynamics:* Third, while most research on the AQ-FP nexus focuses on industrialised countries where "principal-agent" concerns are dominant, emerging countries, such as SAARC members, present a set of unique challenges due to "principal-principal" dynamics. This contrasts with the traditional notion of principal-agent disputes (Jensen & Meckling, 1976). The businesses that have majority shareholders are frequently in a crucial phase of their evolution from being founder-led to being managed by professionals in the field (Young et al*.,* 2008). For the business to succeed in the long run, the founders should ideally relinquish some control (Gedajlovic et al., 2004). However, this shift may be challenging, and if handled incorrectly, it can exacerbate the rivalry between the majority and minority owners (Zahra & Filatotchev, 2004). Furthermore, the less robust institutional and legal safeguards for minority owners, which are more common in the nations under study, exacerbate this agency conflict between large and small shareholders, making AQ study prima facie imperative (Bhatt & Bhattacharya, 2015).

iv) *Audit market concentration and AQ concerns:* Fourth, the audit market concentration in most countries of the SAARC region being in the hands of the BIG 4, along with the region's comparatively lower litigation risk, may create an atmosphere conducive to complacency and even collusion or anti-competitive behaviours, further undermining faith in the audit process (Ratzinger-Sakel et al., 2013). These considerations need a more in-depth investigation of the influence of AQ on FP, with auditor size serving as a proxy for AQ. This type of investigation is critical for informing the establishment and implementation of effective audit market sanctions and regulatory policies in the SAARC area. The ever-escalating accounting scandals further attest to the need for investigating the AQ-FP relationship as a pressing concern.

v) *Overlooked aspects of diversity*: Research on BD as a core device of CG has been in practice for the past 40 years (Lynn et al., 2014). However, the mixed evidence garnered from the synthesis of the extant literature warrants the need to further delve into this area of research (Post & Byron, 2015; Aggarwal et al., 2019). Additionally, the diversity of the board has been extensively studied in relation to its demographic diversity, particularly that of gender (Kagzi & Guha, 2018; Singh et al., 2018). In contrast, the structural diversity of the board and its other demographic diversity attributes have received relatively less attention (Aggarwal et al., 2019). This study seeks to bridge this gap by demonstrating the association of FP with the board's structural and demographic diversity.

vi) *Lack of cross-country study:* Finally, there is a dearth of studies employing cross-country longitudinal data to examine the impact of AQ (Al-Matari et al., 2017) and BD (Kagzi & Guha, 2018) on the FP of firms, specifically in the South Asian context. SAARC strives to achieve regional integration amongst its member states. This study posits to address this lacuna in existing literature and recommend policy implications for strengthening the corporate ties across the region.

1.7 Research Questions: Unveiling the Link Between CG Idiosyncrasies and FP

The present study aims to throw light on the link between both internal (BD) and external (AQ) idiosyncrasies of CG on FP in the relatively underexplored SAARC region. To inform effective CG practices in the region, the study delves into the following research questions (RQ):

RQ 1: *Does AQ have a significant association with FP?*

RQ 2: *Does BD have a significant association with FP?*

RQ 2a: *Is there any significant association between structural BD attributes and FP?*

RQ 2b: *Is there any significant association between demographic BD attributes and FP?*

RQ 3: *Is there any difference in the AQ-FP relationship across the SAARC nations?*

RQ 4: *Is there any difference in the BD-FP relationship across the SAARC nations?*

1.8 Objectives of the Study

The present study aims to fulfil the following objectives:

i) To examine the association between audit quality and firm performance;
ii) To investigate the relationship between board diversity and firm performance and
iii) To make a comparative study of the effect of audit quality and board diversity on firm performance among the SAARC countries.

1.9 Charting a New Course: Implications for Policy and Practice

By addressing the identified gaps in the extant literature, this study aims to contribute in its limited calibre as follows:

i) *Addressing the peculiarities of SAARC nations to fill the regional knowledge gap*: Contrary to their developed counterparts, the SAARC nations are at varying stages of CG reforms. Furthermore, the formulation of best practices on CG in convergence with the advanced economies may not translate to be effective in the unique socio-economic and cultural backdrop of the region. This study aims to provide evidence on the impact of prevalent AQ and BD practices on the FP, considering the peculiar regulatory, institutional, and socio-economic factors prevalent in the region.
ii) *Informing policy design for improved CG in the unique context of SAARC nations:* Evidence on the pros and cons of current CG practices may aid in the development of more robust regulations. The findings of this study can inform policymakers within the region with regionally relevant policy recommendations to tailor more effective CG reforms pertinent to the specific needs of countries in the region.
iii) *Strengthening regional integration*: SAARC constantly strives for economic integration. The comparative analysis of the CG attributes across the region can help identify the areas of convergence and divergence. This, in turn, may aid in developing regional frameworks to facilitate swift cross-border transactions and collaborations within the region.

iv) *Springboard for future research:* Owing to the neoteric nature of CG in the region and the wider availability of data, prior literature on the impact of CG idiosyncrasies on FP has been centred around developed economies. By adding to the limited literature in the region, this study endeavours to highlight the critical areas of investigation and serve as a springboard for further research.

1.10 Conclusion

CG has transcended from its central theme to encompass a diverse spectrum of institutional and societal concerns. Its focal point has extended from traditional accounting and financial concerns to fostering socially responsible business, sustainable development of business, mitigating financial crises and ensuring economic and political stability (Samanta, 2019). Post the financial crisis, Asian economies also demonstrated convergence and transplantation to CG practices for reinforcing investors' confidence and renewing the inflow of investment. While the Asian contagion severely affected the East Asian region, its ripple effect was experienced across the continent, including the SAARC region. Despite this turmoil, SAARC has emerged as the fastest-growing region across the globe. This momentum of economic growth exhibited by the SAARC nations, coupled with growth-oriented policies, has led to a renewed inflow of investors' confidence in the region. This resurgence is further bolstered by the regulatory advancements in the CG regimes across the member states of SAARC. Given the evolving CG landscape and changing market scenarios, this study attempts to document evidence of the CG attributes on FP in the context of SAARC nations.

1.11 Outline of the Study

The study is spread across six chapters. The first chapter discussed the introductory aspects providing a backdrop to the study. It established the research context, highlighting the gaps in the existing literature and outlined the objectives to bridge the same. Chapter two delves into the theoretical framework and reviews relevant literature to formulate the hypotheses for the study. Chapter three explains the research methodology in detail. Chapter four contains the empirical evidence of the AQ and FP relationship. Likewise, chapter five entails the empirical analysis of BD and FP. Finally, chapter six concludes the study and outlines the policy implications.