CHAPTER-2

LITERATURE REVIEW

"*If I have seen further, it is by standing on the shoulders of Giants.*"

– Issac Newton

2.1 CG and FP

2.1.1 Theoretical Underpinnings

CG has an extensive history, extending back to the inception of businesses. At the root of it is the difficulty of balancing the interests of shareholders and management. Numerous researchers have investigated this idea, emphasising the relationship between effective CG and increased FP. Fooladi and Shukor (2012) and Mardnly et al. (2018) show how board structure, ownership, transparency, and audits all contribute to a firm's performance. Multiple theories provide the basis for comprehending CG. The foundational agency thesis, developed by Jensen and Meckling (1976), contends that managers acting as agents for shareholders (principals) may prioritise personal benefit over the firm's success. CG procedures seek to address this issue by requiring responsibility and discouraging such behaviour. Fama and Jenson (1983) emphasise the necessity of strong controls for corresponding managerial actions with shareholder interests. While agency theory is cardinal, various other theories can provide helpful insights in understanding CG. The stakeholder theory of Freeman (1984) advocates for considering all stakeholders, not only shareholders. The transaction cost hypothesis (Williamson, 1983) attests that the firm is a governance system that manages contractual risks. Finally, the resource dependency hypothesis (Pfeffer & Salancik, 1978) emphasises how board members can acquire critical resources for the organisation through their external relationships. Hillman et al. (2000) emphasise the importance of "resourceful" directors to a firm's survival and development.

Beyond these theories, there are different CG models. The finance model (Shleifer & Vishny, 1997) is based on resource dependency theory, whereas the behavioural agency model (Wiseman & Gomez, 1998) incorporates parts of transaction cost and resource dependence viewpoints. All of these theories and models emphasise CG's role in successful corporate operations. The extant research on the link between CG and FP is not definitive, despite the frameworks created by the aforementioned theories and models.

2.1.2 Empirical Evidence

Over the decades, a legion of studies has been carried out exploring the association between the various attributes of CG and FP to deliver diverse results (Tabassam & Khan, 2021). It can be discerned from the synthesis of this extant literature that the association between CG and FP projects gravitates towards positive predilection (Krivogorsky, 2006; Renders et al., 2010; Ciftci, 2019). The debate about whether corporate governance (CG) and financial performance (FP) are positively correlated continues despite a significant number of studies that refute this idea (Mak & Kusnadi, 2005; Shank et al., 2013; Arora & Sharma, 2016). This calls for more research to enhance the body of knowledge and find a consensus. Michelberger (2016) ascribes this lack of resolution to the analysis of a small number of CG characteristics. There is availability of limited literature in this complex field because most research (Carline et al., 2009; Castaner & Kavadis, 2013) only address some part of it. This notion has further been corroborated by Rasheed and Nisar (2018). In their review of CG-FP literature, they identified the most tested attributes of CG. These included the composition of the board, board size, firm size, ownership structure, leverage, age of the firm, audit committee and CEO duality. This limited testing of attributes mostly against a single performance metric manifest itself as the major weakness of the CG literature. Being eclectic in nature, CG houses multitudinous idiosyncrasies which demand attention. Furthermore, FP cannot be measured adequately over a short interval. Despite this, most researchers have disregarded longitudinal data in their studies while documenting the impact of CG on FP (Michelberger, 2016). The significance of longitudinal observation in assessing the impact of the attributes has been well established by Gompers et al. (2001).

In this study, an attempt has been made to fill the voids in the literature of CG by considering both the external and internal attributes of CG mechanism. By considering the multidimensional nature of the area under study, the researcher posits to enhance the existing literature by documenting a comprehensive understanding of the diverse idiosyncrasies of CG and their impact on FP. While most of the prior literature are based on Western cultures owing to the dearth of published data (Jaafar & El-Shawa, 2014), this study aims to adrift itself with the winds of change as the area has lately been inclusive of the developing states as well.

2.2 AQ and FP

2.2.1 Theoretical Underpinnings

Numerous researchers attest that AQ can significantly impact FP (Enekwe et al., 2020; Al-ahdal & Hashim, 2021). To explain this indispensable role played by an external audit, Wallace (1980) proposed three hypotheses:

i) *The monitoring (stewardship) hypothesis:* Lennox (2014) asserts that moral perils and information asymmetry between principals and agents can lead to issues when the management uses their advantage over that of the shareholders to their detriment. According to the monitoring hypothesis, one quality which stakeholders highly prize is an audit's capacity for oversight. Principals consult auditors to determine if their agents' actions align with their interests. This resonates strongly with the study setting, where a lack of regulatory monitoring and lax firm governance underscore the vital role, that independent auditors play in keeping an eye on and discouraging management opportunism.

ii) *The signalling hypothesis*: The signalling hypothesis, which builds on the monitoring idea, asserts that high-quality audits send a signal to stakeholders, increasing their confidence in the accuracy and dependability of a firm's financial data. It posits that the external auditors are in a better position than the stakeholders to discover and report any asymmetries adequately (Hay et al., 2017). This is especially important in developing nations with little information availability and high investor mistrust, as a reliable audit report may draw capital and spur economic expansion.

iii) *The insurance hypothesis:* The information hypothesis is based on the problem of information asymmetry. There are many different forms that the principal-agent relationship might take (Wallace, 1980). This hypothesis states that the audit's objective should be to interact more directly with the imbalance and concentrate on improving it rather than merely raising shareholder awareness of the concerns (Carrington, 2014). It improves the data, which is the basis for making decisions. Because of this, stakeholders may make better decisions and manage risk better, which is in line with the demand for effective capital allocation and risk reduction in emerging nations with less developed financial systems.

Adding to the same string of literature, O'Reilly et al. (2006) posit that all the above hypotheses interact and overlap with the pathbreaking 'Agency Theory' postulated by Jensen and Meckling (1976). It is true that they cohesively deal with the principal-agent problems and firms' accounting decision-making (Morris, 1993). According to this theory, AQ is perceived as an indispensable apparatus in mitigating information asymmetries and reinforcing shareholder confidence (Matoke & Omwenga, 2016). High-quality audits encourage managers to behave in the best interests of all stakeholders, including shareholders, workers, suppliers, and communities, by alleviating agency issues through information distribution and discouraging opportunistic behaviour. This is in line with the rising significance of social responsibility and stakeholder involvement in emerging countries, where trustworthy and ethical firm practices may support sustainable development through excellent audits (Bhatt & Bhattacharya, 2015).

While the agency theory principally considers the best interests of the shareholders, the 'Stakeholder Theory' encompasses all stakeholders. Stakeholder theory put forth by Freeman (1984) states that fraudulent behaviours by the board of directors may endanger the diverse stakeholders' financial security. To mitigate this, auditors should critically monitor such a principal-agent environment. Stakeholder theory is especially pertinent in emerging economies as ethical corporate practices are essential in such socio-economic settings due to weak legal frameworks, knowledge asymmetry, and the increasing significance of social responsibility (Schnader et al., 2015). Aside from thwarting short-termism, stakeholder-oriented audits may bridge information gaps, reduce risks, draw in investors, foster trust, and ultimately support sustainable development and economic success. Figure 2.1 demonstrates the theoretical framework explaining the linkage between AQ and FP.

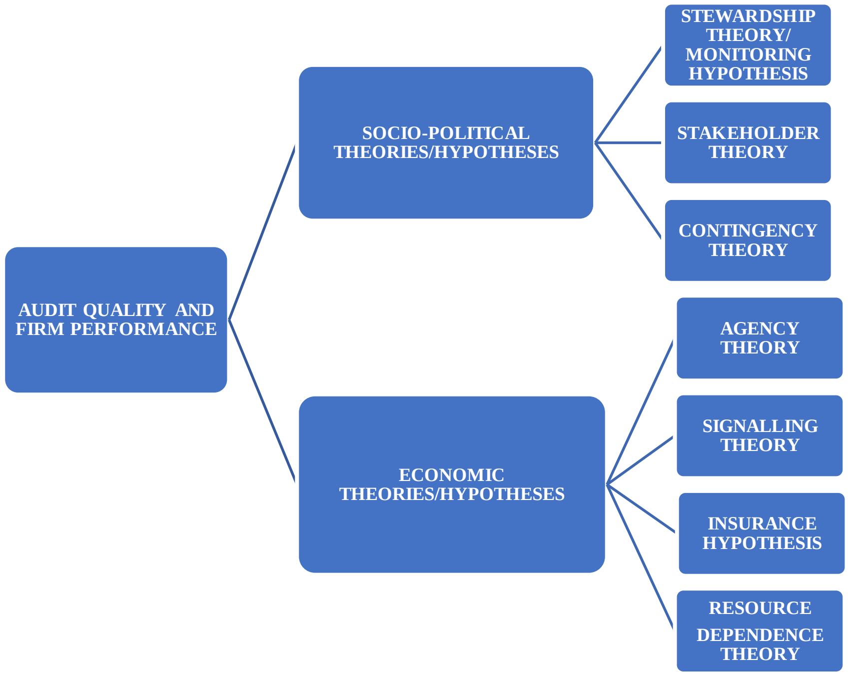

Figure 2.1: Theoretical Framework of AQ and FP

Source: Author's Design

The early literature established the theoretical foundation for the AQ-FP relationship, primarily through agency, stewardship, stakeholder and signalling theories. Subsequent research, including resource dependence and contingency theories, provides additional insights and highlights the potential for context-specific variations. As per Pfeffer and Salancik (1978), the resource dependence hypothesis highlights how crucial external resources are to a firm's ability to survive and expand. A firm's credibility and image may be strengthened by high-calibre audits, which can also improve FP and make resources more accessible. Furthermore, the contingent approach raises the possibility that several variables, including firm size, industry, and regulatory environment, may influence the link between AQ and FP (Watts & Zimmerman, 1979). For example, smaller businesses or those engaged in highly information-asymmetric industries may see a greater effect from AQ on FP. By considering possible contextual differences, this theory enables a deeper comprehension of the connection. Through the viewpoint of CG, these theories accept the theoretical agreement on AQ as an external governance mechanism and its possible relation to FP-measured value creation (DeFond & Francis, 2005; Fan & Wong, 2005).

2.2.2 Empirical Evidence

Literature on AQ remains plenteous with researchers contemplating on the area for 'forever and a day'. However, despite innumerable attempts, the extant literature has failed to develop a universally accepted definition of AQ. The innumerous definitions of AQ perceive their blossoming to Margaret Wolfe Hungerford's widely celebrated expression, "*beauty lies in the eye of the beholder*", as various stakeholders offer variegated and antithetical definitions subjected to their points of vantage. Knechel et al. (2013) metaphorically refer to the Hindu apologue of four blind men defining an elephant as an exemplar of the conundrum that prevails in the existing literature defining AQ. Nevertheless, a reconciliation of these definitions iterates that AQ exerts a significantly positive influence on the confidence of the diverse stakeholders. Thus, in all cases, the auditor earns the trust of the stakeholders and society at large by providing accurate and high-performing audits to confirm the reliability of financial statements.

The colossal literature accredited to AQ is thus cognizant of its significance. However, despite being widely cerebrated, AQ as an area yet remains nebulous. It is a Daedalian concept that has been subjected to myriad gradations across the decades (Francis, 2011). Following the crusades of audit failure starting from Fred Stern and Company in 1925 and proceeded by that of Xerox (2001), Enron (2001), WorldCom (2002), Satyam Computer Services (2008), Lehman Brothers (2010) and the like, criticising AQ has become the de rigueur. Many researchers attribute audit failures to the auditors' lack of independence (Brandon et al., 2004); however, the extant literature on the same being incongruent ends up being adjudged as petulant. The quality of an audit irrefutably depends upon the innumerous idiosyncrasies of the auditor (Knechel et al., 2013). Amongst these attributes, scepticism forms the building block upon which the rationale of all decisions made by the auditor rests (Chiang, 2016). Ignoring this idiosyncrasy will land anyone into the 'what you see is all there is" fallacy put forward by the Nobel laureate, Daniel Kahneman, which posits that decisions are made based on the evidence available. Auditors are often denounced for ignoring their scepticism and uninhibitedly placing their reliance on the management for information, which, in consequence, obliviously impairs the independence of the auditor (Mardijuwono & Subianto, 2018).

Apart from the inherent idiosyncrasies of the auditor, Knechel (2016) highlighted several essential qualities of audit which exert influence over the AQ. These include the incentive offered to the auditor, engagement specifics of the auditee, the process followed for conducting the audit, professional scepticism applied by auditor and its outcome. These characteristics are mostly imperceptible, and various researchers have postulated different proxies as the yardstick of AQ. While it is pertinent that in the absence of any consensus in the definition of AQ, measuring the same has been onerous: brand name or audit firm size, audit fee (AF), auditor reputation, audit hour, auditor opinion, auditor tenure and auditor experience are some proxies developed and employed by researchers across the continuum. It is widely held that AQ is a function of the audit firm's size (Knechel, 2016). Drawing on this belief, many studies have employed auditor's size (BIG 4) as a proxy for AQ. Giving credence to the notion, Lennox (1999), in his study, asserted that auditor size is the most appropriate proxy of AQ from the vantage of both the 'reputation hypothesis' (DeAngelo, 1981) and the 'deep pockets hypothesis' (Dye, 1993). Despite the prevalent dissimilitude in the definition and measure of AQ, the area has been extensively probed under various lenses. One such area remains the testing of AQ in association with FP. This establishment traces its origin to the verity which posits AQ can attenuate the agency conflicts and asymmetries in information thereby influencing the FP (Willenborg, 1999).

By taking AF as the proxy for AQ, many researchers argue that a higher fee paid to auditors is symbolic of an efficient and quality audit (Hoitash et al., 2007; Matoke & Omwenga, 2016). Adding to this, O'Sullivan and Diacon (2002) state that a more complete examination necessitates more audit hours and specialised audit employees, resulting in higher AF. The amount of work that an auditing firm need to complete is presumably represented by the amount of AF paid. Furthermore, since the audit market is tightly regulated and chances to collect rents are restricted, auditor efforts are more clearly observable in the fees (Kanagaretnam et al., 2011).

However, another string of literature believes in the doctrine that the exorbitant fee charged by auditors reduces their independence to an elusive postulation (Levitt, 2000). Nevertheless, as mentioned beforehand, AQ is also considered a function of the audit firm’s size (Knechel, 2016). Drawing on this belief, many studies have employed auditor's size as a proxy for AQ. Fooladi and Shukor (2012) employed auditor's size to test the association between AQ and FP in the Asian country of Malaysia. The results established a positive association in the context of both market-based (TQ) and accounting-based (ROA) measures of FP. Similar findings have been documented in several other studies

(Al-Matari et al*.,* 2017; Angsoyiri, 2021). However, the same produced contradictory results when Farouk and Hassan (2014) tested it against net profit margin. The contemporaneous study by Moutinho et al. (2012) conducted by employing US data for the period 2000-2008 with ROA, ROE and TQ as the yardstick of the firms' performance established a negative association between the performance metrics of the firm and the AQ. To add to the quandary, several studies have also reported insignificant/no association between auditor size and FP. The study by Sayyar et al. (2015), however, produced intriguing results. The study conducted using two proxies of AQ, namely, AF and auditor rotation, documented contrasting associations between the two performance measures. While there was no significant association established between AQ proxies and ROA, audit fee recorded a significant favourable association with TQ to corroborate with the signalling theory where firms send a message to the market that companies with high AQ have higher market worth. This corroborates with the study of Moutinho et al. (2012), whereby the authors concluded that with an increase in the operating performance of the firm, a decrease in the fees paid to its auditor(s) is witnessed.

Table 2.1: Studies Exploring the Relationship Between AQ and FP

Studies	Context	Data	AQ Measure	FP Measure	Results
Miettinen (2011)	Egypt	30 non-financial firms are listed as EGX 100 on the Egyptian Exchange.	Auditor size	ROA and ROE	Positive
Bouaiz (2012)	Tunisia	26 firms listed at the Tunis Stock Exchange	Auditor size	ROA and ROE	Positive
Fooladi and Shukor (2012)	Malaysia	400 randomly selected firms listed at Bursa Malaysia	Auditor size	ROA and TQ	Positive
Sulong et al. (2013)	Malaysia	82 firms listed on the Malaysian ACE Market	AF	TQ	Negative
Martinez and Moraes (2014)	Brazil	300 largest firms listed on the BM&F Bovespa	AF	TQ	Positive
Hassan and Farouk (2014)	Nigeria	4 cement firms listed on the Nigerian Stock Exchange	Auditor size and AF	Profit Margin	Positive

Malhotra et al. (2015)	USA	30 firms that are part of the Dow Jones Industrial Average (DJIA)	AF	ROA and ROE	Negative
Sayyar et al. (2015)	Malaysia	542 firms listed at Bursa Malaysia	AF	ROA and TQ	ROA (Negative); TQ (Positive)
Roy (2016)	India	58 top Indian listed firms in terms of market capitalisation—BSE 100 and NSE 100	AF	Market to Book Value and ROE	Negative
Hua et al. (2016)	Malaysia	50 firms from the construction sector listed at the Bursa Malaysia	Auditor size	ROA	Positive
Tanko and Polycarb (2019)	Nigeria	25 randomly selected firms listed on the Nigeria Stock Exchange	Auditor size	ROA	Insignificant
Rahman et al. (2019)	Bangladesh	109 manufacturing firms listed on the Dhaka Stock Exchange	Auditor size	ROA, Earnings per Share, and Profit Margin	Positive
Elewa and El-Haddad (2019)	Egypt	30 randomly selected firms listed at the Egyptian Exchange	Auditor size	ROA and ROE	Insignificant
Ugwu et al. (2020)	Nigeria	15 Deposit Money Banks listed at the Nigerian Stock Exchange	Auditor size and AF	ROA and ROE	Auditor size (Positive); Audit Fee (Insignificant)
Sattar et al. (2020)	Pakistan	147 manufacturing companies listed on the Pakistan Stock Exchange	AF	ROA	Significant and positive
Monatmesi and Agasha (2020)	Botswana and Uganda	24 firms listed at Botswana Stock Exchange (BSE) and the Uganda Stock Exchange (USE)	AF and Audit Firm Size	ROA and TQ	Insignificant
Ching et al. (2020)	Malaysia	50 randomly selected firms from the Industrial Products and Consumer Products industry listed at Bursa Malaysia	Auditor size and AF	ROA and TQ	Positive

Al-ahdal and Hashim (2021)	India	74 non-financial firms listed at the National Stock Exchange	Auditor size	ROE and TQ	Tobin's Q (Positive); ROE (Negative)
Kalita and Tiwari (2023)	SAARC nations	200 listed non-financial firms	Auditor size	TQ	Positive
Rompotis and Balios (2023)	Greece	75 non-financial firms listed at the Athens Stock Exchange (2018-2021)	Auditor size	ROA	Positive

Source: Authors' Compilation

Table 2.1 highlights, in a nutshell, the mixed evidence garnered by researchers throughout the continuum when examining the association between AQ and FP. With studies on both the maxims being tantamount, the investigations continue to operate on the horns of a dilemma. However, the synthesis of the extant literature brings to light numerous gaps that yet remain unexplored in the prismatic domain of AQ. One such void is the absence of studies employing cross-country longitudinal data (AlQadasi & Abidin, 2018; Kaawaase et al., 2021). This study aims to fill this void from the vantage point of the under-researched yet emerging nations of the South Asian sub-continent. Since there is no consensus regarding any single measure of AQ, for the purpose of this study, auditor size and AF have been proposed as the proxies for measuring AQ, which remain in literature as the most widely celebrated proxies of AQ.

2.3 BD and FP

2.3.1 Theoretical Underpinnings

Carroll and Buchholtz (2014) affirm that the board is the principal authority that governs the functioning of an organisation. This governing is influenced by the diversity in the composition of the board (Heyden et al., 2015). Defined as the diverseness in the board's composition (Kagzi & Guha, 2018), BD is an admixture of demographic and structural diversity idiosyncrasies. Researchers are of the belief that both categories of BD influence the functioning of the firm, which in turn affects the overall performance (Aggarwal et al., 2019). In the recent decade, BD has emerged as a flourishing area in literature. From its point of view, each CG theory supports the optimum strategy for boards to deal with board decisions. Table 2.2 provides a detailed account of the various theories that establish an association between BD and FP.

Table 2.2: Role of Boards: Theoretical Perspective

Theory	Focus
Agency Theory (Jensen & Meckling, 1976)	Boards should be managerial and independent. Agency theory ensures that management is effectively monitored to curtail self-serving behaviour, which aligns the board's interests with those of the shareholders.
Stewardship theory (Donaldson & Davis, 1994)	Boards should empower management. To ensure this, the stewardship theory focuses on responsible management with a tab on the long-term viability and profitability of the business for all stakeholders.
Resource Dependence Theory (Pfeffer & Salancik, 1978)	According to this viewpoint, boards are a valuable source of connections and resources. The competitive edge of a business may be strengthened by having a diverse board since they can access new markets, talent, and information due to their unique experiences.
Stakeholder Theory (Freeman, 1984)	It attests that diverse boards may reflect the interests of a larger stakeholder base, resulting in more sustainable and socially responsible policies.
Social Identity Theory (Tajfel, 1978)	Diverse boards can improve collective decision-making by including new perspectives and addressing prejudices.
Social Capital Theory (Singh, 2007)	It emphasises the social ties that the board shares with other influential sources.
Human Capital Theory (Singh, 2007)	A diversified board composition can enable better-informed decisions.
Upper Echelon's Theory (Hambrick & Mason, 1984)	It proposes that the board of directors' traits impact strategic decisions. Diverse boards may provide new viewpoints and challenge established prejudices, perhaps leading to more inventive and successful tactics.
Critical Mass Theory (Kanter, 1975)	Dealing with the demographic variable of the board, the theory attests that there must be at least three women directors to influence the performance of any firm.
Signalling Theory (Miller & Trianna, 2009)	It demonstrates what the composition of the board signals to the various stakeholders.
Contingency theory (Zona *et al.,* 2013)	The theory provides how pronounced any attribute of board diversity may be in the presence of specific contextual factors.
Behavioural Theory (Cyert & March 1963)	According to the firm's behavioural theory, the demographic characteristics of the board may have an impact on how thorough the search and decision-making procedures are.

Self-categorisation Theory (Brown & Turner, 1981)	According to the self-categorisation hypothesis, people divide themselves into a number of social and psychological identification groups according to particular characteristics.

Source: Author's compilation

Lodging on these theories of CG, different researchers have provided evidence of variegated impacts of BD attributes on the performance of a firm (Srivastava, 2015). While theories like resource dependency theory, upper echelon theory, networking theory, and such profess for positive influence, refuting maxims avow their allegiance to theories like social identity theory and the like, which believe in the antithesis (Post & Byron, 2015; Kagzi & Guha, 2018). Acknowledging the 'double-edged' nature of BD, Kagzi and Guha (2018) categorise these theories into two categories to explain the association of the different diversity attributes with the performance of the firm. The following figure illustrates the direction of association suggested between BD and FP based on the theories of CG.

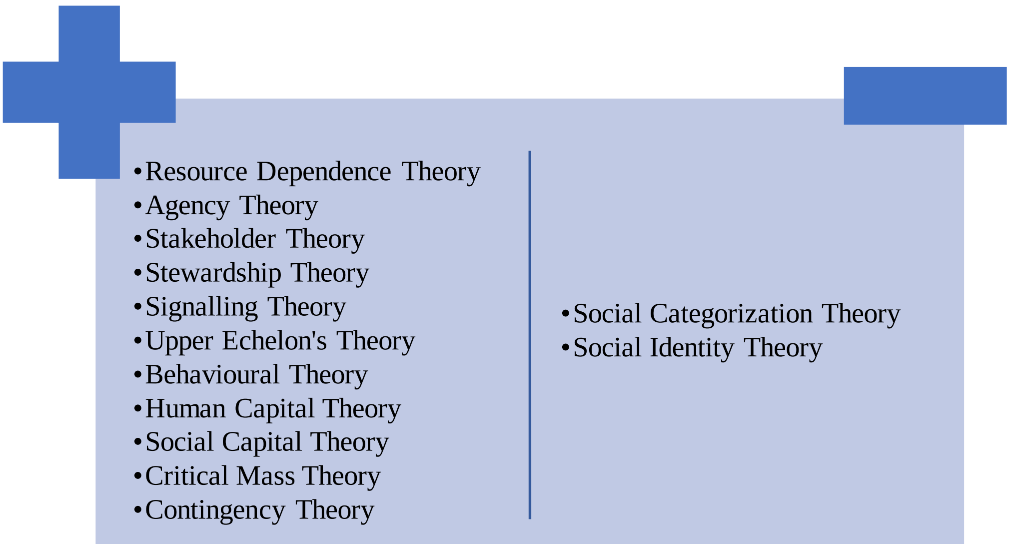

Figure 2.2: Direction of the Relationship Between BD Attributes and FP

Source: Author's design

Various empirical evidence provides credence to the classification as suggested above. A detailed account of the same has been provided in the following sub-section.

2.3.2 Empirical Evidence

Fama and Jensen (1983), in their study, establish that the board of directors are the internal mechanism of CG by virtue of the agency theory. To add to it, Hillman and Dalziel (2003) state that the board of directors also perform the 'resource dependence role' by facilitating the resource requirements of the firm and enhancing the FP. Servicing these roles, however, does not come without any cost. The heterogeneity in the board may, at times, create friction, which in turn may have a devastating effect on the FP (Veltrop et al., 2015). Therefore, while some studies demonstrate detrimental consequences, others discover benefits, and yet others find no difference. A portion of this ambiguity stems from an emphasis on established countries, which ignores developing markets and distinctive organisational forms like corporate groups. Furthermore, studies frequently focus only on gender diversity, neglecting other facets of a diverse board (Kagzi & Guha, 2018; Kalita & Tiwari, 2023). Although diverse boards were historically thought to be stronger watchdogs, it is becoming more widely acknowledged that they may also offer insightful counsel. Table 2.3 provides a summarised account of several studies exploring the influence exerted by the board's diversity on FP.

Table 2.3: Studies Exploring the Relationship between BD and FP

Author(s)	Context	Sample and time period	BD variable	FP variable	Results
Carter et al. (2003)	The U.S.	Fortune 1000 U.S. firms (1997)	Percentage of female directors	TQ	Positive
Erhardt et al. (2003)	The U.S.	118 listed non-financial U.S. firms (1993-1998)	Percentage of female directors	ROA and ROE	Positive
Campbell and Minguez-Vera (2008)	Spain	68 listed non-financial Spanish firms (1995-2000)	Percentage of female directors, Blau and Shannon's Indices of Female Directors	TQ	Positive
Adams and Ferreira (2009)	The U.S.	S & P 500's U.S. listed firms (1996-2003)	Percentage of female directors	ROA and TQ	Positive for weakly governed firms and negative for firms with robust governance practices.

Carter et al. (2010)	The U.S.	S & P 500's U.S. listed firms (1998-2002)	Number of female directors	ROA and TQ	No association. This is consistent with the contingency approach, which holds that the benefits of BD are not universal. Diversity may be most beneficial for particular firms under specific circumstances.
Haslam et al. (2010)	U.K.	FTSE 100 firms (2001-2005)	Percentage of female directors	TQ, ROA and ROE	Negative association with TQ and no association with ROA and ROE.
Srinidhi et al. (2011)	The U.S.	3123 firm-year observations of U.S. firms (2001-2007)	Presence of a female director	Earnings Quality	Positive
Gul et al. (2011)	The U.S.	6610 firm-year observations of listed non-financial U.S. firms (2001-2006)	The presence of female directors and the number of female directors	Stock Price Informativeness	Positive and stronger for weakly governed firms.
Ben-Amar et al. (2013)	Canada	289 M&A decisions by Canadian firms (2000-2007)	Classification of gender, nationality, experience, and cultural diversity attributes into terciles	Mergers and Acquisitions performance	No association
Gregory-Smith et al. (2014)	U.K.	FTSE350 listed U.K. firms (1996-2011)	Percentage of female directors	TQ, ROA and ROE	No association
Chapple and Humphrey (2014)	Australia	S&P/ASX 300 listed Australian	Number of female directors	Stock-based measure (portfolio approach)	No difference in the FP between all-male and gender-diverse boards.

		firms (2004-2011)			
Ali et al. (2014)	Australia	288 listed Australian firms (2012)	Blau Index of gender diversity and age diversity measured by coefficient of variation	Employee productivity and ROA	Gender diversity attested positive association with employee productivity and no association with ROA. Age diversity attested negative association with ROA and no association with employee productivity.
Ararat et al. (2015)	Turkey	BIST-100 Turkish firms (2006)	Blau indices for gender, age, education, and nationality of directors	Market-to-book value and ROE	Positive
Arun et al. (2015)	U.K.	FTSE350 listed U.K. firms (2005-2011)	Number of female directors	Earnings management	Gender-diverse boards are more conservative about earnings management.
Canyon and He (2017)	The U.S.	3000 U.S. firms (2007-2014)	Percentage of female directors	TQ and ROA	Positive. It was further found that the relationship was stronger for high-performing firms.
Talaveera et al. (2018)	China	97 Chinese Banks (2009-2013)	Co-efficient of variation of age of directors	Bank profitability	Negative
Kılıç and Kuzey (2016)	Turkey	149 listed non-financial Turkish firms (2008-2012)	Presence of female directors, Percentage of female directors and Blau Index of gender diversity	ROA, ROE and return on sales	Positive
Kagzi and Guha (2018)	India	Top 200 firms listed on the National Stock Exchange of	Blau index of gender, age, tenure and education	TQ	No association of gender diversity and tenure diversity on FP. Age diversity has a

		India (2010-2014)			positive association, while education diversity has a negative association with FP.
Hassan and Marimuthu (2017)	Malaysia	529 Malaysian listed firms out of 798 firms selected based on judgmental sampling (2013)	Percentage of women directors, percentage of non-Malay directors (ethnic diversity)	TQ, ROA and ROE	The positive association between gender diversity and FP. No association of FP with ethnic diversity.
Fernández-Temprano and Tejerina-Gaite (2020)	Spain	87 listed non-financial Spanish firms (2005-2015)	The standard deviation of age, tenure, education, percentage of female directors and proportion of directors from different nations	ROA, market-to-book value	Positive association of age with FP. The negative association of education and nationality with FP. No association in the case of gender and nationality diversity.
Almarayeh (2021)	Jordan	Listed non-financial firms (2009-2018)	Percentage of female directors	ROA	No association
Mastella et al. (2021)	Brazil	150 listed non-financial Brazilian firms	Presence of women directors	ROE and TQ	Positive
Ramadan and Hassan (2021)	Egypt	Listed non-financial firms (2014-2016)	Proportion of female directors	ROA, Asset Utilization Ratio, TQ	Positive
Saha and Maji (2022)	India	Top 100 listed non-financial firms (2014-2018)	Blau and Shannon indices for education diversity, percentage of female directors, percentage of independent directors and CEO duality	Market Capitalization, ROA	Positive association of board gender, education and independent directors on FP. Negative association of CEO duality on FP.

Gharbi and Othmani (2022)	France	284 listed non-financial firms (2009-2017)	Percentage of women directors	ROA, TQ	The findings indicate that, over the predicted threshold, female directorship has a beneficial influence on business performance. However, below the threshold, the association is neutral.
Hatane et al. (2022)	Indonesia	LQ45 companies (2010-2016)	Proportion of directors with a PhD or equivalent degree and proportion of women directors	Return on capital and economic-value added	No association
Lee and Thong (2022)	Multi-country	187 listed firms from the tourism industry of 30 countries (2015-2020)	Percentage of female directors	TQ	Positive
Kabir et al. (2023)	European Union	19 European countries (2010-2020)	Proportion of women directors, Blau and Shannon indices of gender diversity	ROA, ROE	Negative
Khan et al. (2023)	Pakistan	188 listed non-financial firms (2009-2020)	Blau indices of age, nationality, gender, education and tenure	ROA, TQ	Diversity in terms of nationality, ethnicity, and educational level is positively connected to FP. In contrast, age and education diversities have a negative impact on FP Gender and tenure have no impact.

Source: Author's Compilation

As exhibited in the above Table, research evidence tracing the association between BD and FP remains inconclusive. Aggarwal et al. (2019) further report that a sizeable amount of the studies is based on the developed western setting thereby highlighting a paucity in the literature in the context of emerging nations.

2.3.2.1 Gender Diversity

"What if Lehman Brothers had been Lehman Sisters?"

-Christine Legarde

Numerous researchers have shown enduring interest in examining the corporate outcomes of integrating women into traditionally male-dominated boards (Abou-El-Sood, 2021). When it comes to the concept of equality of treatment, it is merely one of the many facets of BD that is morally sensitive. The pursuit of this egalitarian treatment leads to tokenism (Adams & Ferreira, 2009) and doubt that gender-diverse boards represent a case for moral or social legitimacy and, hence, not a viable economic argument (Chapple & Humphrey, 2014). As a result, rational reasoning must be expanded in order to break through the glass ceiling that women have been subjected to for centuries (Adams et al., 2015). There is a contention that female directors possess a potential competitive advantage due to their perceptive understanding of the market and aptitude for creative and critical thinking (Cox & Blake, 1991). Once again, due to their risk aversion and altruistic tendencies, female directors contribute to a reduction of crony capitalism. In addition, including women directors on a firm's board signifies a forward-thinking perspective of the organisation, consequently bolstering its corporate reputation (Solakoglu & Demir, 2016). This is strongly supported by Lafuente and Vaillant (2019).

The argument for women on board was fuelled in 2006 by the mandatory deployment of 40 per cent female director's requirement in Norwegian listed businesses (Post & Byron, 2015). Taking this regulation as precedence, many other regulations started taking shape in their counterparts, hence the upswing in research on the same (Lafuente & Vaillant, 2019). However, despite numerous attempts and a plethora of empirical findings, the association between gender diversity and FP remain unresolved. For instance, Dongol (2021), by taking the case of Nepal and ROA and ROE as the performance metrics, concludes that there exists an inverse association between the board's gender diversity and FP. However, in the same geological setting, the study of Gautam (2019) established a significantly positive association between them by taking ROA as the yardstick. However, the same produced negative results when ROE was tested as the measure of FP. Furthermore, taking observations from Denmark and the Netherlands, Marinova et al. (2016) in their study put forth an insignificant association between Tobin's q and the board's gender diversity. Post and Byron (2015), also conclude that no significant link could be traced between gender diversity and FP. Ararat et al. (2015) explain this inconclusiveness in results by expounding that the gender and FP relationship suffers from non-linearity, which again corroborates the critical mass theory of Kanter (1975).

2.3.2.2 Age Diversity

Age diversity might be viewed as a stand-in for experience. According to the decision-making theory, diverse teams stand to gain from having members with a greater variety of backgrounds and viewpoints (Syakhroza et al., 2021). Boards with a mix of age members might benefit from the collective experience and varied perspectives of each generation, which could result in better judgements. While younger directors are more adaptable, innovative, and adventurous (Hambrick & Mason, 1984), older directors are more experienced, wiser, and more concerned with work ethics and quality (Robbins & Judge, 2015). Improvements in FP may result from these differences having a positive impact on the board's skills, resources, knowledge, experience, and connections. However, it is also probable that they may be related to cognitive conflicts and a lack of team cohesion, which will negatively impact the FP (EmadEdleen et al.,2021). Thus, drawing on this absentia of linearity in the relationship between the board's age diversity and FP, researchers have provided diverse results. While some studies posit that the age diversity attests significant positive influence on the FP (Ararat et al., 2017), others confide in the antithesis (Talavera et al., 2018), leaving scope for further investigation.

2.3.2.3 Education Diversity

The education diversity of a board captures the range of academic backgrounds and qualifications held by its directors. The limited literature examining education diversity predicts a linkage between it and corporate performance. It is suggested that boards with a wider range of educational backgrounds display stronger information processing capabilities and a greater openness to innovation, ultimately leading to better FP (Harjoto et al., 2019). This is in tune with the findings of Darmadi (2013). Darmadi (2013) analysed the influence of educational background on FP in the context of Indonesian Stock Exchange firms. His research attested to a positive correlation between higher educational attainment among CEOs and board members and the FP of those firms. However, it is pertinent to acknowledge that several studies also argue that educational diversity may harm the firm’s success. A significant disparity in educational backgrounds among board members can create communication gaps and hinder agreement, potentially leading to decreased FP (Milliken & Martins, 1996). The existence of such disparities may lead to the development of greater degrees of cognitive conflict. According to the findings of this series of research, investors may view educational diversity as a cause of board member conflict. As a result, it may have a detrimental impact on the FP (Kagzi & Guha, 2018). Furthermore, taking a total corpus of 593 firms, listed on the Korea Stock Exchange, Kim and Lin (2009) conducted a study spanning for the period 1999-2006. Intriguingly, while exploring the relationship between directors’ educational diversity and FP, the study found that directors with governance experiences exerted positive influences on the performance of the firm, while directors with financial proficiency exerted a negative influence. Thus, despite the growing body of research, empirically the FP and educational diversity relationship remains inconclusive.

2.3.2.4 Nationality Diversity

While nationality diversity remains under-researched in the domain of corporate finance, it is well attested that it may a priori influence the FP either positively or negatively (Frijns et al., 2016). A board with diverse nationalities of directors provides access to a wider talent pool with a broader range of skills and experiences. Furthermore, certain nationalities have historical strengths in specific industries or possess unique entrepreneurial qualities demonstrating their beneficial impact on the FP (Awaworyi Churchill, 2020). This element of cultural variety might explain the results of Masulis et al. (2012) that corporations with foreign directors make stronger cross-border acquisitions when the targets are from their home country. Contradictorily, cultural variety may also result in communication barriers and misunderstandings (Anderson et al., 2011). Easterly and Levine (1997) found a link between national diversity and weaker public policy, which can manifest in slower economic growth. This, in turn, can negatively impact factors like financial development and infrastructure investment, both crucial for FP. Furthermore, cultural variety has been linked to poorer levels of intragroup trust (Bjrnskov, 2008). These negative elements of cultural diversity can be connected to the results of Ahern et al. (2015). They document that cultural distance between an affiliated firm and its target diminishes the chance of a successful acquisition. Thus, nationality diversity too follows the spirit of double-edgedness as the other idiosyncrasies of BD. While taking the sample of the Fortune 500 companies for the period of 1998-2002, Carter et al. (2007) concluded that diversity in the nationality of the board of directors exerts a significant positive influence on the FP. The same is, however, refuted by Frijns et al. (2016), who employed the data of UK-listed companies to establish a negative association. An interesting addition to the notion was made by Garca-Meca et al. (2015) in their study where they concluded that the detrimental impact of board nationality is primarily prominent in nations with stronger levels of investor protection and bank oversight.

2.3.2.5 Director's Independence

A cursory synthesis of the extant literature creates a predilection for a director's independence, having a proclivity that leans towards the favourable association between the independence of directors and FP. To substantiate, Brown and Caylor (2004) establish in their study that boards with a majority of independent directors assist corporations to achieve greater returns. However, the same is not without opposition. According to stewardship theory, it may be difficult for independent directors to efficiently function and oversee the management if they have restricted access to information, ultimately affecting the FP (Darko et al., 2016). Following the lines of Bhagat and Black (2001), Bhatt and Bhattacharya (2015) conducted a study comprising 115 IT firms listed on the Bombay Stock Exchange for the period 2006-2012. By taking ROA and ROE as the performance metrics, the study failed to give any support to the element of agency theory that is connected to board independence and firm success, thereby adding to the third fragment of the literature on board independence and FP. However, with most government rules and acts on CG in the advanced economies placing a high value on the participation of independent directors in overall CG as well as the best combination of internal and outside directors, further investigations are necessitated.

2.3.2.6 CEO Duality

One cardinal aspect of board composition is the leadership configuration, specifically whether the Chairperson and CEO roles are combined (CEO duality) or held by separate individuals. The impact of this leadership structure on FP has been a subject of ongoing research and debate within academic literature. According to agency theory, CEO duality results in concentration of power and weakening of board oversight. This vesting of power in one single individual can potentially lead to agency conflicts. Consequently, such structures may be associated with an unfavourable impact on FP (Fama & Jensen, 1983). The proponents of stewardship theory, however, present a contrasting perspective. They argue that CEO duality can enhance organisational leadership performance by fostering greater unity of command and streamlining decision-making processes (Finkelstein & D'Aveni, 1994). This aligns with the concept of resource dependence theory, which suggests that firms benefit from securing critical resources, and in this case, strong leadership can be viewed as a valuable resource. Nevertheless, concerns surrounding the potential for weakened board monitoring under CEO duality have led to growing calls for the separation of these roles (Krause, 2017). Empirically, employing the tactics of GMM on a sample of 950 US firms for a period of 15 years, Duru et al. (2016) provide intriguing results. They discover that when independent directors account for only a tiny fraction of a board's membership, CEO duality has a negative and substantial influence on operating performance. Furthermore, when the number of independent directors increases, these negative effects are minimised to the point where they finally disappear and turn positive as the proportion of independent directors climbs even further. Nevertheless, with findings being inconclusive and the existence of no universally agreeable uniform leadership structure, the debate continues to irk researchers.

2.4 Hypotheses Development

Dwelling on the propositions from the various theoretical and empirical shreds of evidence, the following hypotheses are developed to test the AQ-FP and BD-FP associations:

H_1: There exists a significant association between AQ and FP.

H_2: There exists a significant association between BD and FP.

Furthermore, the following hypotheses are developed to test the individual effects of the BD attributes on FP:

H_{2a}: There exists a significant association between CEO duality and FP.

H_{2b}: There exists a significant association between board independence and FP.

H_{2c}: There exists a significant association between board gender diversity and FP.

H_{2d}: There exists a significant association between board nationality and FP.

H_{2e}: There exists a significant association between board education and FP.

H_{2f}: There exists a significant association between board age and FP.

2.5 Conclusion

The studies reviewed in this chapter provide a convincing picture of the advances made in CG-FP research. However, the quest towards a thorough knowledge is still underway. The inadequacies found in this analysis underscore the pressing need for more research into the AQ-FP and BD-FP relationship. This study is a step towards this direction. The subsequent chapters will describe the methodology used and the results obtained, with the goal of not only adding to the current body of knowledge but also motivating additional research in this critical sector.