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ETHICS REDEFINED: A COMPARATIVE STUDY ON WOMEN ON BOARDS VS. ATTRIBUTES OF CORPORATE GOVERNANCE IN THE LIGHT OF FIRM PERFORMANCE

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ABSTRACT

This study is related to Corporate Governance (CG) and is an important research stream. One of the most noteworthy dimensions of CG is Board Gender Diversity (BGD). While there is a lot of study being done on BGD in developing and emerging market economies is still in the early stages of this field. This study attempts to answer the seminal question, of what matters most for Firm Performance (FP), CG attributes, or just BGD). So, this study investigates the relationship between BGD and CG attributes, on the FP. The existing literature lacks a comprehensive analysis of BGD and CG attributes on FP so this study fills this research gap. To meet the study's objective, data is collected for 50 non-financial firms listed on the Pakistan Stock Exchange, the data period is 2017-2022 which leads to a total of 300 firm-year observations. For data analysis, the technique of panel regression is used in this study. This study reveals that CG attributes employ mixed influence on FP, while BGD negatively impacts the FP, emphasizing the significance of border governance mechanisms. This research shows the need for the firm to prioritize more ethical governance practices, across different cultural and economic contexts instead of just diluting the board with more female directors. Exploring the role of other variables could provide deeper insights into the factors deriving these relationships.

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INTRODUCTION

In today's corporate landscape, there is a growing recognition of the essential impact of female diversity on corporate boards, as emerging companies are recognizing the need to have females in key positions for better decision-making and diverse perspectives (Martinez-Jimenez et al., 2020). These enhancements have been followed by the increased demand for female diversity in organizations facing multicultural environments within challenging economies. To operate companies more as per standard practices and governance guidelines requires more gender diversity for better outcomes (Martinez-Jimenez et al., 2020). On the other hand, in the middle of these advancements, although corporate governance and gender diversity have been established greatly as a separate research area, relatively less attention has been paid to how companies operate internally based on their structured rules and regulations called corporate governance, without focusing on who sits on the board.

Now keeping things into the big picture of gender diversity and corporate dynamics. Some previous studies suggested that having women on board leads firms towards better decision-making. The British Department of Industry and Trade highlights that for more enrichment of board effectiveness and to run firms more actively, the board should be diverse (Beji et al., 2021). As they bring different ideas, and problem-solving approaches, and have better attendance behavior (Nguyen et al., 2020). Therefore, this broader perspective significantly contributes towards more ethical considerations such as economic, social, and environmental, thereby, encouraging more sustainable strategies. So, this study tries to investigate whether the presence of women on board will

improve the firm's performance along with other attributes of corporate governance.

Moreover, numerous prior studies emphasize the idea that having a female on board would have a positive impact on business, what would be the reaction of the board to having women on the board, and how it would help business last longer and be more profitable. However, there is no agreement on these results, as some studies find a positive relationship between the presence of women on a board of directors and the performance of the company (Li and Chen, 2018), while others find no noticeable connection and mention that, there is a negative impact of female diversity on firms' performance (Naghavi et al., 2021).

However, few studies focus on how internal systems such as rules, regulations, and structure, known as corporate governance get influenced by having females on board. While, it is commonly believed that, having females on board is good for decision-making, this study aims to dig deeper, by questioning the notion that having females on board is essential for business success or that all attributes of corporate governance are necessary to improve firm performance. So, the gap of the study is to figure out that, how corporate mechanisms can bring the changes that female on board brings to the company for business growth by investigating Pakistan's markets.

Thus, the purpose of this study is to investigate, whether the corporate mechanism alone is sufficient to run the business more ethically, or whether the presence of women on board is essential to bring changes that will lead the business toward growth. However, the prior studies suggested a positive but not

statistically significant relation between having women on board and firm performance (Marquez-Cardenas et al., 2022). This paper focuses on the fact that their presence is crucial for the success of the business, beyond the internal structure of rules & regulations. This study investigates what uniqueness women on board bring to the business success as compared to the governance practices of the company on its own.

The significance of this study is to transfer the focus from who sits on the boards to the company's internal workings such as its rules, regulations, and governance structure. This study examines the present idea that having women on board enhances a firm's performance, and highlights the importance of ethical business practices to improve a firm's performance. Furthermore, the contribution of this study is to examine the perspective based on the concept of the crucial role of having females on boards is essential to enhance a firm's profitability.

Literature Review and Hypotheses Development

The breakthrough highlights the unfolding focus on gender diversity in corporate boards and its impact on the company's decision-making and performance, with the growing focus on the need for diverse perspectives when making decisions. It addresses the importance given to the attendance of the women on board and to all those possible gains they bring in terms of improved presence and better perspectives (Krishnan and Park, 2005). This literature aims to alter the ruling perspectives by emphasizing the significance of ethical governance practices and structure for organizational success and profitability, by challenging the notion that women's contribution is one of the factors to achieve business success.

The research framework of this study is based on agency theory, which highly focuses on the conflict of interest or objectives of principals (shareholders) and actions of agents (management/board members). This theory helps in assessing how women's presence on the board will have an impact on the decision-making process, or, if it aligns with the interests of the principals known as shareholders, eventually impacting the firm performance (Solakoglu and Demir, 2016).

Despite several studies exploring the relationship between them, the empirical evidence is still undecided on having improved attendance of women on board and ethical governance practices, by challenging the notion that women's contribution is the sole factor to enhance a firm's profitability. Some studies find a negative relation between having women on board and a firm's performance, by providing evidence that having a female on board does not essentially enhance a firm's performance (Naghavi et al., 2021).

However, this literature aims to continue to explore the ongoing discussion on the relationships between gender diversity vs. ethical governance practices in the light of a firm's performance. It highlights the complexities and dissimilar findings with the help of the existing body of research that would set the grounding for further investigations and analysis in this comparative study.

Gender Diversity

However, not only in developed but in developing countries as well, there has been a great rise in diverse businesses incorporating individuals in terms of age, knowledge, and skills. Likewise, women pursuing managerial careers have also increased. However, regardless of these advancements, there remains a significant lack of representation of women holding corporate seats, in developed countries as well. In a study conducted by Australia's Equal Opportunity for Women in the

Workplace agency, the average presence of females on boards is 10.7% in Australia, differing from 15.4% in the US. Since, some multicultural institutions observe a pattern, where minority groups, such as women face limited opportunities for career development (Ibarra, 1993). Consequently, attempts to promote equal opportunities among the groups have gained attention in organizations. In this regard, the governments of developed countries, such as Australia and the US have instituted equal opportunity commissions. In the past few decades, the presence of women on board and top management teams has attracted the interest of researchers, as compared to other demographic attributes, diversity seems to be more highlighted in the literature (Lu et al., 2022) as women are supposed to have cognitive style. Although the traditional hypothesis states that there is a positive impact of female diversity on a firm's performance (Li and Chen, 2018). There are various reasons for supporting the idea, first, the heterogeneous boards are considered to have a better understanding of market place. Secondly, higher diversity on board can lead to improved corporate image. Third, the top management or diverse boards may have a broader point of view of the business atmosphere.

On the other hand, some studies find a negative association between gender diversity and firm performance, as diversity within the management team is also expected to bring drawbacks for the organization, and may enhance the probability of intra-group conflicts (Duppati et al., 2020), which might result in slower decision making. Further, women are considered to be more risk-averse comparatively to men, in financial decision-making (Jianakoplos and Bernasek, 1998), and might influence the resource allocation within the organization. We should also emphasize the possibility that diversity may lead towards lower firm performance if decision-making becomes more time-consuming. Specifically, for those sectors, that require quick response to market fluctuations, diversity might result in value destruction, rather than value enhancement (Solakoglu and Demir, 2016). Based on the above discussion following hypothesis is developed:

H1: Board gender diversity negatively impacts the firm's performance.

Corporate Governance Attributes and Firm's Performance

To restore investor's confidence, the governance mechanism is systematized to ensure returns on investments. Resulting, some researchers find a positive effect of the internal governance mechanism on a firm's performance (Puni and Anlesinya, 2019), while some find a negative (Affes and Jarboui, 2023). Although, there are numerous studies based on the relationship between governance attributes and their impact on a firm's performance empirical findings and arguments have gone both ways (Sheikh et al., 2013), leading towards different conclusions. Here internal governance mechanisms include Board size, CEO duality, and independent directors.

Board Size: The board of directors are the ones who lead and control the company. In this regard, some researchers suggested that having the larger boards are less effective, because some remaining directors may take advantage of the efforts of others (Coles et al., 2008). On the contrary, resource dependency theory suggests that larger boards with higher external links lead the company towards success (Tibiletti et al., 2021), as they will provide an increased pool of skills and expertise, help in better monitoring, comparatively to smaller groups, hence reflecting firm performance. In the literature, most of the studies concluded a positive impact between board size and a firm's financial

performance (Pucheta-Martínez and Gallego-Álvarez, 2020), which is aligned with the expectation of resource dependency theory. Therefore, it is hypothesized that:

H2: Board size positively impacts the firm's performance.

CEO-Duality: Refers to, when a single seat is served by the same person as a Chairman and CEO. Agency theory suggests that CEO duality decreases the monitoring effectiveness of the board over management. However, some researchers suggest that the roles of both of them should be separated, otherwise, the decisions might be dominated by the person holding the same positions, hence, weakening the board's effectiveness (Lee, 2023). Based upon resource dependency theory suggests that when the same person holding the position of CEO and Chairman, will help speed up decision-making and improve how well the company will perform. Hence, some researchers state a positive relationship between CEO duality on a firm's performance (Abor and Biekpe, 2007). Nevertheless, if the seat belongs to the same persons, will result in governance and leadership issues. Those companies with CEO duality offer great power to a person, which may grant him authority to make decisions, which might not align with shareholder concerns. However, some researchers claim no significant relation between duality and a firm's performance stating that if there exists a duality, results in compromising the strength of board governance. In reality, there will be a lack of independence among the board and management if duality exists (Mashayekhi and Bazaz, 2008). Therefore, it is hypothesized that:

H3: CEO-Duality negatively impacts the firm's performance.

Independent Director: It refers to the outsider who acts as an independent director, to judge a firm's performance. The directors within the company have more knowledge about the operations of the company, while in regard, the outside directors can offer their valuable knowledge and unbiased opinions on managerial choices. Consequently, some researchers claim that there is a need for an independent director on board along with compliance from regulatory bodies (Masulis and Zhang, 2019). While, other found that, for effective monitoring of management and unbiased opinion, there is a need for independent directors on the board, so they found a positive influence of independent directors on a firm's performance (Masulis and Zhang, 2019). Therefore, the following hypothesis is developed:

H4: Independent directors positively impact a firm's performance.

METHODOLOGY

Research Design

This quantitative study aims to examine the impact of gender diversity and corporate attributes on a firm's performance. This segment of the paper contains information about the data collection and sample. Within the section, a framework is construed to develop the model, followed by the testing of hypotheses with the help of statistical tools.

Sample and Data Collection

In this study, a sample of 50 non-financial firms listed on the KSE-100 index on the Pakistan Stock Exchange (PSX). The data was collected from this index because these firms cover 80% of market capitalization (Habib Ur and Mohsin, 2012). As every listed company is bound to prepare financial statements, which must comply with approved accounting standards, in this regard, balanced panel data related to the corporate attributes, gender diversity, and firm performance were taken from the annual reports of the company for the years 2017-2022. Some of the data were collected from reports issued by the State Bank of Pakistan. For other financial information, data were collected from firms' annual reports. For data analysis, panel regression (fixed/ random effects) is used along with the Hausman test. Description of variables is given in Table 1.

Empirical Models

$$ROE_{it} = \beta + \beta_1 BI_{it} + \beta_2 CD_{it} + \beta_3 BS_{it} + \beta_4 GD_{it} + \beta_5 FS_{it} + \beta_6 LEV_{it} + \epsilon_{it} \quad (1)$$

$$ROA_{it} = \beta + \beta_1 BI_{it} + \beta_2 CD_{it} + \beta_3 BS_{it} + \beta_4 GD_{it} + \beta_5 FS_{it} + \beta_6 LEV_{it} + \epsilon_{it} \quad (2)$$

$$EPS_{it} = \beta + \beta_1 BI_{it} + \beta_2 CD_{it} + \beta_3 BS_{it} + \beta_4 GD_{it} + \beta_5 FS_{it} + \beta_6 LEV_{it} + \epsilon_{it} \quad (3)$$

Where,

β = Coefficient

ϵ = Error term

ROA= Return on Assets

EPS= Earnings per share

BI= Board independence

CD= CEO-Duality

BS= Board size

GD= Gender diversity

FS= Firm size

LEV= Firm leverage

Table 1. Summary of variables.

Variables	Measures
<i>Dependent Variable</i>	
Return on assets	Net income / Total assets (Wang and Sarkis, 2017)
Return on equity	Net Income / Equity (Rasheed et al., 2018)
Earnings per share	Net Income / Earning per share (Ahmed et al., 2021)
<i>Independent Variables</i>	
Gender diversity	
Board size	No. of women on board / total no of board members (Li and Chen, 2018)
CEO-duality	No. of directors on the board (Tibiletti et al., 2021)
Independent director	"1" if duality otherwise "0" (Hassan et al., 2023) No. of independent directors / total no. of directors (Rasheed et al., 2023)
<i>Control Variables</i>	
Leverage	Total debt over total assets (Kazmi et al., 2024)
Firm size	Natural log of total assets (Rasheed and Ahmad, 2022)

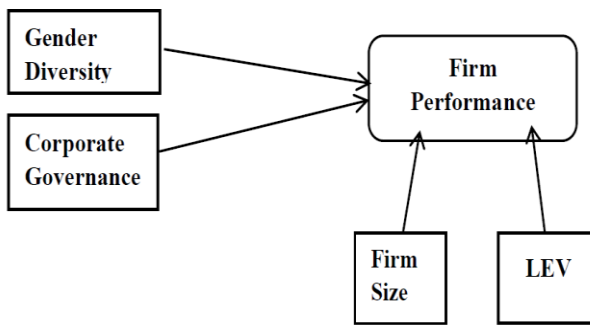


Figure 1. Theoretical framework.

In Figure 1, gender diversity and corporate attributes such as (Board independence, CEO-duality, and Board size) are independent variables, whereas, firm performance is the dependent variable. FP is measured with three different types of proxies to include the different aspects of FP. Moreover, some control variables, such as firm size and leverage were also included in our model to account for firm-specific characteristics that could have an impact on a firm's performance.

RESULTS AND DISCUSSION

Table 2 provides the descriptive statistics of the variables used in the study, which contain average, lowest, or highest values and standard deviation. Table 2 shows that the average of ROA and ROE is 9.266 and 25.434, respectively. In addition, the average of

Table 2. Descriptive statistics.

Variable	Obs	Mean	Std. Dev.	Min	Max
ROA	300	9.266	10.198	-18.722	57.966
ROE	300	25.434	44.443	-264.893	269.382
EPS	300	45.761	126.761	-108.701	1248.435
BS	300	8.503	2.047	6	18
BI	300	24.881	11.497	0	57.143
CD	300	.01	.1	0	1
GD	300	12.654	10.358	0	42.857
FS	300	24.438	1.303	20.545	27.869
LEV	300	1.267	2.437	.149	21.488

Table 3. Pairwise correlations.

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
(1) ROA	1.000								
(2) ROE	0.579***	1.000							
(3) EPS	0.617***	0.511***	1.000						
(4) BS	0.094*	0.130**	0.124**	1.000					
(5) BI	-0.060	0.031	-0.054	-0.098*	1.000				
(6) GD	0.049	-0.028	-0.017	-0.161***	0.116**	1.000			
(7) CD	0.085	0.008	0.000	-0.074	-0.051	0.155***	1.000		
(8) FS	-0.258***	-0.140**	-0.153***	0.019	0.109*	-0.186***	-0.093*	1.000	
(9) LEV	0.116**	0.603***	0.226***	0.132**	0.038	-0.026	-0.023	-0.229***	1.000

Note: *** p<0.01, ** p<0.05, * p<0.1.

EPS is 45.761. Moreover, BS and BI have the mean values of 8.503 and 24.881. GD with an average value is 12.654. For CEO-duality we used dummy variable 0, 1, on average there is a 1% occurrence of duality with a mean of 1. Moreover, the average Firm size and Leverage are 24.438 and 1.267.

Table 3 presents a correlation matrix among variables. The financial indicators show a positive and significant relation within the group. BS has a positive but weak correlation with financial indicators (ROA, ROE, EPS), indicating a limited association between them. BI has a negative and insignificant relation with ROA and EPS, indicating BI negatively impacts firm performance. Moreover, GD also has a negative and insignificant relation with performance in terms of (ROE, and EPS), respectively, suggesting that GD negatively impacts the firms' performance. CEO-duality is positive but does not have a statistically significant relation with the performance indicators. Firm size is negatively correlated with (ROA, ROE, and EPS) indicating larger firms in size are associated with low financial performance. Finally, there is a positive correlation of Leverage with (ROA, ROE, and EPS). So, it is confirmed that there is no issue of multicollinearity and it is also confirmed by the values of VIF.

The analysis is performed by using panel data and Table 4 shows the coefficient estimates for our models. The outcomes are mainly generated using Stata software, where we compared the fixed and random effects. Based on the Hausman test results, we opted for a fixed effect for our model associated with these variables.

Table 4. Regression results.

VARIABLES	(1) ROE	(2) ROA	(3) EPS
BS	2.321 (1.860)	0.769* (0.409)	2.136 (5.917)
BI	0.125 (0.169)	-0.0457 (0.0371)	0.387 (0.537)
GD	-0.424** (0.208)	-0.0427 (0.0457)	-0.0122 (0.661)
CD	0.335 (14.35)	1.226 (3.156)	2.899 (45.66)
FS	3.644** (1.544)	2.202*** (0.339)	7.989 (4.911)
LEV	-2.131** (1.029)	-1.012*** (0.226)	-19.70*** (3.272)
Constant	-45.66 (28.75)	-28.37*** (6.322)	-80.44 (91.46)
Observations	300	300	300
R-squared	0.065	0.222	0.144
Number of ID	50	50	50

Note: Standard errors in parentheses; *** p<0.01, ** p<0.05, * p<0.1.

In the model with a fixed effect for Return on Equity (ROE), we observe a positive association between BS and ROE, suggesting that every one unit increase in BS will result increase in ROE ($\beta=2.321$), this implies that a larger board has the potential to positively influence the firms' performance. However, this relationship lacks the statistical significance. Likewise, BI indicates a positive yet insignificant relation with ROE ($\beta=0.125$), meaning that the presence of outside directors judging performance could potentially enhance the firms' ROE. Conversely, GD exhibits a negatively significant relation with ROE, meaning that an increase in diversity will lead towards a decrease in ROE ($\beta=-0.424$, $p < 0.05$), hence, this finding supports the hypothesis and also aligns with the previous literature (Brahma et al., 2021). CEO-duality exhibits a positive influence on a firm's performance ($\beta=0.335$), but without the statistical significance, it is hard to conclude whether this effect is considerable or simply due to chance. Further, Firm size demonstrates a positive and statically significant relation with ROE ($\beta=3.644$, $p < 0.05$), suggesting that larger firms are more efficient in generating profits. Finally, leverage shows a negatively insignificant relation with ROE ($\beta=-2.131$, $p < 0.05$), meaning that highly leveraged firms experience lower ROE. The value of R-square shows that there is a 6.5% variation explained by the independent variable into the dependent variable and highlights the influence of other factors, which contribute to the remaining 93.5%.

In the model with a fixed effect for Return on Asset (ROA), we observe a positive and significant relationship between BS and ROA ($\beta=0.769$, $p < 0.1$), indicating that larger board size positively influences the firms' performance. This suggests that a wide spectrum of expertise within the boardroom will enhance the board's ability to generate more returns. BI shows a negative and statistically insignificant relation with ROA, meaning that the presence of independent directors on the board may not enhance the firm's performance. Likewise, GD has a negative and statically insignificant relation with ROA ($\beta=-0.0427$), exhibiting that firms with diverse boards, may experience lower ROA, supporting the hypothesis (Dinu and Bunea, 2018). CEO-duality shows a positive

yet statically insignificant relation with ROA ($\beta=1.226$), indicating the person holding the same seat may have a positive influence on ROA, but this effect lacks statistical significance. Further, Firm size has a positive and significant relation with ROA ($\beta=2.202$, $P < 0.01$), meaning that larger firms tend to experience higher ROA. Finally, leverage shows a negatively significant relation with ROA ($\beta=-1.012$, $p < 0.01$), meaning that highly leveraged firms will experience lower ROA due to an increase in financial risk. The R-square value shows that there is a 22.2% variation explained by the independent variable into the dependent variable and highlights the influence of other factors, which contribute to the remaining 77.8%.

In the model with a fixed effect for Earning per share (EPS), BS exhibits a positive but statically insignificant relation with EPS ($\beta=2.136$), indicating that an increase in BS, may lead to higher EPS, however, this relationship is statistically not robust. Similarly, BI demonstrates a positive yet insignificant relation with EPS ($\beta=0.387$), meaning that having an independent director assessing firms' performance, positively impacts the EPS, as they are supposed to give unbiased opinions on firms' financial health, although this relationship is statically not meaningful. Further, GD shows a negative and insignificant relation with EPS ($\beta=-0.0122$), contradicting the idea that there is a need to have females on board for improved EPS. Firm size shows a positively insignificant relation with EPS ($\beta=7.989$), though, supporting the idea that larger firms improve EPS, this relation is not significant. Finally, leverage shows a negatively significant relation with EPS ($\beta=-19.70$, $p < 0.01$), meaning the highly leveraged firms will decrease firms EPS, but this relation is statically meaningful. The R-square value implies that there is a 14.4% variation in the dependent variable explained by the independent variable, and the remaining 85.6% is due to other factors.

CONCLUSIONS

In conclusion, this study examined the impact of corporate attributes and gender diversity on the performance of companies listed on the Pakistan Stock Exchange. The findings revealed a

positive relation between board size and firm performance, while CEO duality and the presence of independent directors did not have a significant impact on performance. Contrarily, gender diversity revealed a negative association with performance, indicating that female diversity on board might not lead to better outcomes. Thus, this study suggests that gender diversity alone might not guarantee better outcomes, emphasizing the significance of border governance mechanisms. Future research in this area could delve into a deeper understanding, of how corporate attributes and GD influence a firm's performance, across different cultural and economic contexts. Moreover, exploring the role of other variables, such as industry dynamics, and corporate culture, could provide deeper insights into the factors deriving these relationships. In this study data is collected from 50 non-financial firms, the sample may be increased in a future study for more concise results. A future study may also be conducted by inclusion of other attributes of corporate governance.

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