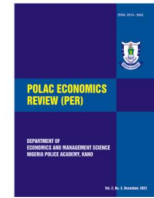




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BOARD DIVERSITY AND FINANCIAL PERFORMANCE OF LISTED INSURANCE FIRMS IN NIGERIA

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Abstract

The study examines board diversity and financial performance of quoted insurance firms in Nigeria. The research design adopted by the study is correlational and the population comprises the 22 insurance firms quoted on the Nigeria Exchange Group as of 31st December 2021 out of which ten (10) were selected as sample size. The study adopts a secondary source of data and the data were extracted from the annual reports and accounts of the selected quoted insurance firms in Nigeria. The data covers a period of 10 years ranging from 2012-2021. The study used the Ordinary Least Square (OLS) Regression Model as the technique of analysis using STATA 13.0 software. Finding reveals that gender diversity has a significant positive impact on financial performance of quoted insurance firms, also ethnic diversity has a significant positive impact on firm performance while foreign directorship has an insignificant negative impact on financial performance. In line with the findings of the study, the study concluded that women are richly represented on the board of the quoted insurance firms and would contribute to financial performance while an increase in the number of foreign directors contributes to reducing the financial performance of insurance companies. The study, therefore, recommends that insurance firms should not be distracted by having more women on board instead capable and experienced hands should be the focus and should optimize its foreign directors by not having too many foreign directors which will create additional costs greater than the benefit of the board member.

Keywords: Board diversity, Gender Diversity, Ethnic Diversity, Foreign Directorship, Return on Assets

1. Introduction

Corporate organizations are saddled with the responsibility of achieving greater financial performance and maximizing shareholders' return on investment which will eventually boost investors' interest in the firm and also enabled informed decision-making that will ultimately improve financial performance. To achieve high financial performance and simultaneously uphold the public's faith in every firm, literatures have demonstrated the significance of a competent and efficient board of directors. In the past, several business companies engaged in unethical behaviour that ultimately caused some of these organizations to fail and subsequently collapse

(Securities and Exchange Commission [SEC], 2004). Large corporations like Enron, WorldCom, Rank Xerox, Parmalat, Bank of Credit and Commerce International (BCCI), as well as the widespread crisis that shook the Asian and African Financial Institutions, all occurred on the global stage (Wikipedia, 2010). However, examples of company failures and collapse have already occurred in Nigeria's financial services sector, out of which the insurance firms are included. Poor oversight by the audit committee was blamed for the failure of banks like Oceanic Bank, Abacus Merchant Bank Nigeria Limited, Royal Merchant Bank Limited, Rims Merchant Bank Limited, Financial Merchant Bank

Limited, Progress Merchant Bank Plc, and Republic Merchant Bank Limited (Securities and Exchange Commission [SEC], 2004).

Countries all over the world have made sure that a solid corporate governance framework is in place due to the impact of business failures on corporate organizations and national economies. The corporate board's diversification is one of these phases. The Security and Exchange Commission and the Corporate Affairs Commission (CAC) therefore introduced the Code of Corporate Governance for Nigerian public firms in 2003 in response to this appeal. The duties of the board of directors are bounded by some of the requirements of the code for good corporate governance (Securities and Exchange Commission [SEC], 2004). The most recent financial crisis had a significant influence on the economy and caused significant issues in the corporate world. In light of this, insurance companies are concentrating on corporate governance practices that will create a solid foundation for the crises' recovery. To ensure the efficient administration, monitoring, regulation, and control of the insurance business in Nigeria, the National Insurance Commission (NAICOM), which has been granted regulatory and supervisory power over insurance businesses, has been given this responsibility. Due to the claim that performance improves when outsiders are added to the board, the issue of board diversity may be related to the more general problem of independent foreign directors. Therefore, there is a need for introducing a greater degree of diversity on the board of directors as a corporate governance mechanism. However to the best of the researchers' knowledge much has not been done in this area most especially on insurance companies in Nigeria.

Objectives of the Study

The main objective of this study is to examine the impact of board diversity on financial performance of listed insurance firms in Nigeria. Other specific objectives include:

- i. to examine the impact of gender diversity on the return on assets of listed insurance firms in Nigeria.
- ii. to access the impact of ethnic diversity on the return on asset of listed insurance firms in Nigeria.

- iii. to determine the impact of foreign directorship on the return on asset of listed insurance firms in Nigeria.

Research Hypotheses

- Ho₁:** Gender diversity has no significant impact on the return on asset of listed insurance firms in Nigeria.
- Ho₂:** Ethnic diversity has no significant impact on the return on asset of listed insurance firms in Nigeria.
- Ho₃:** Foreign directorship has no significant impact on the return on asset of listed insurance firms in Nigeria.

2. Literature Review

2.1 Conceptual Issues

Concept of Board of Directors: The Board of directors is among the most important mechanism of corporate governance in an organisation. The Board of directors' function and efficiency has received serious attention in academics. According to Liu and Fong (2010) board of directors is regarded as an important institution for mitigating the agency problem that arises with absentee ownership in most studies. The ability of the board to handle conflict that arises as a result of the separation of ownership between owners and management and for the board of directors to help in reducing agency cost is what is referred to as a board of directors (McIntyre, 2007). The code of corporate governance for public companies (2003) which was reviewed by a committee set up by the security and exchange commission in September 2008, states how a board is to be composed and structured. It stated that should be of sufficient size and should ensure diversity of experience without compromising independence, compatibility, integrity and availability of members to attend meetings.

Board Diversity:

Marimuthu (2008) viewed corporate board diversity as the disparity in terms of age, race, ethnicity, gender and socio-cultural identities within a group in a specific corporation. It has also been defined as the composition of a corporate board with a distinct combination of attributes, skills and characteristics which the members pose (Vanderbilt *et al.*, 2003). Diversity has been divided into two. We have observable diversity also known as demographic diversity it deals with diversity in terms of gender,

race, qualification and ethnicity. The second category is unobservable diversity which one cannot quantify with certainty, they are attributing of individual that are not visible and need careful observation to determine it. These attributes that are not visible may include skills and knowledge. e.t.c. Measuring board diversity has been a bone of contention in research over time, however, some studies proxy board diversity with gender, nationality, and age diversity of the board (Felipe *et al.*, 2021). Tukur and Bilkisu (2014), Ilaboya and Ashafoke (2017), and Waqas *et al.* (2020) proxy board diversity with both gender and ethnicity. Hedija and Nemec (2021) measure board diversity with the presence of both women and foreign directors on boards. For this study, board diversity is measured using board gender diversity, ethnic diversity and foreign directorship.

Gender Diversity

Gender diversity is essential to any business by allowing hiring from a vast pool of talent. Diversity brings with it a richness and variety of experiences and perspectives that benefit companies and stakeholders. Having women on boards encourages more creativity and innovation and encourages board members to consider a broad range of ideas and possibilities whereby they serve as role models, and therefore, improve female employees' performance and boost the company's image. According to Dutta and Bose (2006), the definition of gender diversity in the boardroom refers to the presence of women on the board of directors which is an important aspect of board diversity. Gender diversity could bring board functioning that eventually could influence firm performance. Board gender diversity has become a widely debated corporate governance topic over the last decade. Heterogeneity in decision-making and problem-solving styles produces better decisions through the operation of a wider range of perspectives and a more thorough, critical analysis of issues.

Ethnic Diversity

Ethnic diversity in so many ways creates an avenue for the harvest of various ideas, perspectives and experiences which could serve as an added advantage or could be detrimental. Milliken and Martins (1996) argued, in line with the detrimental effect of a small number of ethnic diversity, reasons resulting from the possible dissatisfaction of minority groups. They went

on with the argument that the larger the diversity the more advantageous and could result in more innovative ability. Richard (2000) argued in the direction of racial diversity (an aspect of ethnic diversity). Emphasizing the essence and importance of ethnic diversity, Richard (2003) opined that racial diversity acts as a knowledge-based resource and empirically revealed that it has a positive impact on the performance of innovative banks.

Foreign Directorship

Another board diversity variable that may impact firm performance is foreign directorship. The presence of foreign directors on the board of an organization tends to change the ownership-control equation. It enables foreign investors to have a substantial and direct representation that can be employed to influence, and in other instances, dictate how the firm should be governed. This in turn alters or tilts the direction of the firm in favour of foreign investors. The board of directors as a vital part of a firm's corporate governance system may have foreign directors on the board. The board is saddled with two functions, firstly was to hire, fire, and motivate managers, and secondly, to advise managers on important strategic decisions. These board responsibilities have important implications on the firm performance (Adams & Ferreira, 2009) and it was suggested that a board's effectiveness was determined by how well it can perform these functions in conjunctions. Sarkar and Sarkar (2000) posit that a study of foreign shareholders in developing economies proves that as the level of foreign shareholding increases, the value of the firm increases fourfold.

Financial Performance

The word Performance is derived from the word *parfourmen*, which means to do, to carry out or to render. It refers to the act of performing; executing, accomplishing, fulfilment, etc. In the border sense, performance refers to the accomplishment of a given task measured against pre-set standards of accuracy, completeness, cost, and speed. In other words, it refers to the degree to which achievement is being or has been accomplished. Performance is used to indicate a firm's success, conditions, and compliance. Financial performance refers to the act of performing a financial activity (Forza & Salvador, 2000). In a broader sense, financial performance refers to the degree to which

financial objectives are being or has been accomplished. It is the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure a firm's overall financial health over a given period and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation.

2.2 Theoretical Review

Resource Dependence Theory

The resource dependency theory provides a theoretical basis to explain the association between board diversity and firm financial performance since the theory states that 'board members with different skills, different cultural backgrounds, different gender, among others, will act as a strategic resource to the firm which may result to superior performance' (Ujunwa *et al.*, 2012). The resource-dependence theory developed by Pfeffer and Salancik (1978) focuses on the mutual interaction between organizations to support the exchange of resources. The long-term prosperity of companies depends on the availability and the controlling possibilities regarding critical resources (Pfeffer & Salancik, 1978). Thereby, the members of the corporate administration, who distinguish in terms of age, gender, nationality or education, can concentrate the diverging resources for the benefit of the company (Hillman *et al.*, 2000). Hereafter, higher effectiveness of board activities can be justified, for example, due to higher information processing or the necessity to discuss within the plenum (Carter *et al.*, 2010). Due to the members' different individual contacts inside and outside the company, a variety of additional resources are generated by a growing board size.

2.3 Empirical Review

Aladejebi (2021) examined the relationship between gender diversity and quoted deposit money banks' performance in Nigeria using descriptive statistics, trends, and correlation analysis. Data was collected through the websites of 13 publicly quoted banks on the Nigerian Exchange Group. Data were analysed by using the Pearson correlation coefficient and panel least square regression analysis. The study shows that there is a weak negative relationship between female board members' percentage and earnings per share. Alashe *et al.* (2021) investigated the influence of board structure on financial performance of consumer goods

firms in Nigeria. Data of secondary nature, which spanned through the years 2012 to 2019 were collected from fourteen (14) firms in the consumer goods sector using a judgmental sampling technique. The data were collected from the annual reports of these firms. The data were econometrically analysed using ordinary least square, highlighting pooled, fixed and random effects. Results revealed that board gender diversity has no significant influence on profit after tax margin of selected listed manufacturing firms. It was further revealed that executive directors' numerical strength does not have a significant effect on the profit after-tax margin of selected listed manufacturing firms.

Ali and Abubakar (2020) examined the impact of ethnic diversity on financial performance of 67 listed non-financial companies in Nigeria, for 6 years ranging from 2012 to 2017. Descriptive statistics, Correlation and the contemporary 2-Step System-GMM estimator were used in the analysis, and the results show that ethnic diversity and board size have a positive and significant impact on firm performance. Conversely, the results using ROA indicated that ethnic diversity has a negative insignificant impact on performance, while firm size has a negative significant influence. Waqas *et al.* (2020) evaluated the impact of board diversity on the Chinese A-listed firm's performance. The data were collected from A-listed companies registered in Shanghai SSE 180 and Shenzhen 100 from the period 2007 to 2016. Both the fixed effects model and a more robust dynamic panel generalised method of moment estimation are applied to cater for the endogeneity problem. The study found that gender diversity, education diversity and foreign director diversity measured through the Blau index have positive and significant effects on the Chinese A-listed firm performance for both the accounting and market measures. Age diversity and independence diversity seem not to be an essential determinant of firm performance in Chinese A-listed firms. Joshua *et al.* (2019) examined the effect of board independence, expertise and foreign board member on the financial performance of listed insurance firms in Nigeria. The population of the study comprises 26 listed insurance firms in the Nigerian Exchange Group and 17 were selected as a sample size using a random sampling technique. The regression analysis revealed that board expertise and foreign members have a statistically significant effect on the financial performance

measured by return on asset (ROA). Board independence has a significant effect on ROA but does not have a significant effect on return on equity ROE.

3. Methodology

This study used the correlational research design since the research work assesses the impact of the explanatory variable on the dependent variable. The population for the study consists of the entire 22 listed insurance firms on the floor of Nigerian Exchange Group (NGX) as of 31st December 2021. However, ten of these firms were selected for this study using the convenience sample technique. Data were extracted from secondary sources through annual reports and accounts of the selected insurance firms. Data extracted were analysed using the linear regression models. The idea behind regression analysis is the statistical dependence of one variable, the dependent variable, on one or more variables, the independent or explanatory variables. The objectives of such analysis are to estimate or predict the mean or average value of the dependent variable based on the known or fixed values of the explanatory variables (Gujarati & Porter, 2009).

3.1 Model Specification

The theoretical model that was used to estimate the coefficient of the variables captured in this work is specified as follows:

$$ROA_{it} = \beta_1 GENDISTY_{it} + \beta_2 ETHDISTY_{it} + \beta_3 FRNDIR_{it} + e_{it} \dots\dots\dots 1$$

Where:

ROA_{it} = Return on asset Measure of firm i in year t

$GENDISTY_{it}$ = Gender diversity of firm i in year t

$ETHDISTY_{it}$ = Ethnic diversity of firm i in year t

$FRNDIR_{it}$ = Foreign directorship of firm i in year t

β_1 - β_3 = Coefficient of

parameters for firm

i = intercept

t = Period

(Time)

e = Error time

4. Data Presentation and Analysis

4.1 Data Analysis

The data were analysed with the aid of Stata 13 software using Descriptive Statistics, Pearson Correlation, Variance Inflation Factor, and Linear Regression Model based on the data extracted.

Descriptive Statistics

Table 1: Summary of the Descriptive Statistics of the Entire Data Set.

Variable	Obs	Mean	Std. Dev.	Min.	Max.
ROA	100	.021417	.0777243	-.1932151	.2710041
GENDISTY	100	.2309553	.1482046	0	.4444444
ETHDISTY	100	.5	.5025189	0	1
FRNDIR	100	.1116905	.1332768	0	.4

Source: Researcher's Computation using STATA 13 software

Table 1 show that the return on asset (ROA) has a minimum value of -.1932151, a maximum value of .2710041 and a mean value of .021417 which is within the minimum and maximum values indicating a good spread within the period studied. The table also reveals that ROA has a standard deviation of .0777243 which is more than the mean, which implies that it had a strong growth for the period under review. Table 1 also shows that gender diversity (GENDISTY) has a minimum value of 0, a maximum value of .444 and a mean value of .2309553 which is within the minimum and maximum indicating a good spread within the period studied. The table also reveals that GENDISTY has a standard deviation of .1482046 which is less than the mean, which implies that it had slow growth during the period under review.

Table 1 equally shows that ethnic diversity (ETHDISTY) has a minimum value of 0, a maximum value of 1 and a mean value of .5 which is within the minimum and maximum values indicating a good spread within the period studied. The table also reveals that ETHDISTY has a standard deviation of .5025189 which is more than the mean, which implies that it had strong growth for the period under review. Table 1 further shows that foreign directorship (FRNDIR) has a minimum value of 0, a maximum value of .4 and a mean value of .1116905 which is within the minimum and maximum indicating a good spread within the period studied. The table also reveals that FRNDIR has a standard deviation of .1332768 which is more than the mean, which implies that it had strong growth during the period under review.

4.2 Pearson Correlation

Table 2: Pearson Correlation Matrix for the Data Set.

Variable	ROA	GENDISTY	ETHDISTY	FRNDIR
ROA	1.0000			
GENDISTY	-0.1371	1.0000		
ETHDISTY	0.2716	-0.0107	1.000	
FRNDIR	-0.0484	-0.5493	-0.1678	1.0000

Source: Researcher's Computation using STATA 13 software

The correlation matrix determines the degree of relationships between the proxies of an independent variable and the dependent variable. It is also used to show whether there is an association among the proxies of the independent variable themselves, to detect if a multicollinearity problem exists in the model. The result from table 2 shows that there exists approximately 14% negative and weak relationship between gender diversity (GENDISTY) and return on asset (ROA) of insurance firms in Nigeria from the correlation coefficient of -0.1371 which is significant at 1% level of significance. The table also shows that there is 27% positive and weak relationship between ethnic diversity (ETHDISTY) and return on asset (ROA) of insurance firms in Nigeria from the

Table 3: Variance Inflation Factor (VIF)

Variable	VIF	1/VIF
ETHDISTY	1.05	0.956697
FRNDIR	1.50	0.668064
GENDISTY	1.45	0.687331
Mean VIF	1.33	

Source: Researcher's Computation using STATA 13 software

To further confirm the absence of multicollinearity problem among the exogenous variables, colinearity diagnostics test was equally observed as the Variance

correlation coefficient of 0.2716 which is significant at 1% level of significance. Furthermore, the table shows approximately 5% negative and weak relationships between foreign directorship (FRNDIR) and return on asset (ROA) of insurance firms in Nigeria from the correlation coefficient of -0.0484 which is significant at 1% level of significance. Finally, the relationships between proxies of the independent variable themselves suggest being mild as all coefficients are below the threshold of 0.80 as suggested by (Gujarati, 2003) which indicates the absence of multicollinearity problem.

Variance Inflation Factor (VIF) Results

Inflation Factors (VIF) and the Inverse Variance Inflation Factors (1/VIF) values portray no multicollinearity problem in the data as their values are less than 10 and 1 respectively (Gujarati, 2003) as presented in table 4. This point to the fact that the variables are well selected and fitted in the same regression model because the multicollinearity problem is absent in the model, which is one of the requirements for regression analysis.

4.3 The Results of the Ordinary Least Square (OLS) Regression Model

Table 4: Ordinary Least Square Regression Model Conducted

Variable	Coefficients	t-value	Prob.
Cons.	.0334852	1.43	0.156
GENDISTY	-.103597	-1.69	0.094*
ETHDISTY	.0386944	2.53	0.013**
FRNDIR	-.0670524	-0.97	0.334
R-squared	0.1006		
Adj. R-squared	0.0725		
Prob. >F	0.0167		

Note: * $P < 0.1$, ** $P < 0.05$, *** $P < 0.001$

Source: Researcher's Computation using STATA 13 software

Table 4 above shows that 10% variation of return on asset (ROA) is predicted by the combined effect of gender diversity (GENDISTY), ethnic diversity

(ETHDISTY), and foreign directorship (FRNDIR) with (R-squared of 0.1006). This indicates that the model of the study is fit and the independent variables are

properly combined and used. The Adj R-squared value of 0.0725 with a Prob.>F of 0.0167 signified that the model is fit for the study.

4.4 Test of Hypotheses

To examine the impact of board diversity on the financial performance of listed insurance firms in Nigeria, the formulated hypotheses were tested using a linear regression model.

Ho₁: Gender diversity has no significant impact on the return on asset of listed insurance firms in Nigeria.

The results in Table 4 above show that the t-value of -1.69 and the corresponding p-value of 0.094 shows that gender diversity has a significant negative impact on the return on asset of insurance firms in Nigeria for the period under review. Based on this, the null hypothesis which says that gender diversity has no significant impact on the return on asset of listed insurance firms in Nigeria is accepted.

Ho₂: Ethnic diversity has no significant impact on the return on asset of listed insurance firms in Nigeria.

Table 4 equally indicates that the t-value of 2.53 and the corresponding p-value of 0.013 shows that ethnic diversity has a significant positive impact on the return on asset of insurance firms in Nigeria for the period under review. Based on this, the null hypothesis which says that ethnic diversity has no significant impact on the return on asset of listed insurance firms in Nigeria is rejected.

Ho₃: Foreign directorship has no significant impact on the return on asset of listed insurance firms in Nigeria.

Table 4 further reveals that the t-value of -0.97 and the corresponding p-value of 0.334 shows that foreign directorship has an insignificant negative impact on the return on asset of insurance firms in Nigeria for the period under review. Based on this, the null hypothesis which says that foreign directorship has no significant impact on the return on asset of listed insurance firms in Nigeria is accepted.

5. Conclusion and Recommendations

Based on the discussion and analysis in the preceding chapter, the study provides statistical and empirical evidence on the three independent variables utilized by

the study (gender diversity, ethnic diversity, and foreign directorship) on the financial performance of listed insurance firms in Nigeria. However, the study concludes as follows;

First and foremost, gender diversity has a significant impact on the financial performance of listed insurance firms; this may be because women are richly represented on the board of the listed insurance firms. Thus, women would contribute to financial performance. Secondly, ethnic diversity has a significant positive impact on firm performance, the reason is attributable to their experience in controls and direction functions of the board of directors. Lastly, foreign directorship has an insignificant negative impact on financial performance indicating that an increase in the number of foreign directors contributes to introducing the financial performance of insurance companies in Nigeria.

Given the foregoing, this study recommends as follows:

(i) The negative and significant impact of gender diversity on return on asset clearly shows that when there is an increase in the number of female directors, the return on asset is affected negatively thereby reducing the firm's performance. Therefore, insurance firms should not be distracted by the craze of having more women on board instead capable and experienced hands should be the focus and not gender.

(ii) Ethnic diversity has a significant impact on the performance of insurance companies, any increase in these actors will promote insurance companies' performance.

(iii) The study finds that the relationship between foreign directorship and return on asset is negative and insignificant. The negative relationship between foreign directorships on return on asset indicates that when there is an increase in the number of foreign directors, the return on asset is affected negatively and consequently firm performance. The study recommends that Nigerian listed insurance firms should optimize their foreign directors, but at the same time avoid having foreign directors beyond which an additional member will create additional costs greater than the benefit of the added board member because too many foreign directors will create higher costs in communication, coordination and remuneration for directors, which will thereby decrease firm performance.

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