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Conceptual Analysis of Board Diversity and Corporate Governance: A Catalyst for Sustainable Growth and Ethical Leadership

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ABSTRACT

Due to its potential impact on company performance and decision-making, board diversity has garnered significant attention in corporate governance, as the number of cases involving issues in this area has increased. This study investigates the relationship between several key factors and board diversity in corporate governance. It examines the relationship between board member attributes, firm age, gender diversity on the board, firm size, and board diversity. Board diversity is a metric that quantifies the representation of different backgrounds, viewpoints, and experiences on corporate boards. The study intends to investigate how the size of the company influences board diversity, the representation of women on boards, the duration of the firm's operations, and the individual characteristics of board members. The study aims to contribute to the body of knowledge on corporate governance practices and provide insights into the factors that influence board diversity by examining the impact of firm age, board gender diversity, firm size, and board member characteristics. The results will undoubtedly have a positive impact on increasing board effectiveness, fostering inclusivity, and enhancing organisational performance.

1. INTRODUCTION

Board diversity refers to the composition of a company's Board of Directors (BOD) with members from various demographic groups in terms of gender, ethnicity, age, education, and professional expertise. Note that boards are responsible for authorizing major strategic and financial decisions, such as Mergers and Acquisitions (M&As) and changes in capital structure, as well as the most crucial task of all: hiring and firing top executives (Ferreira, 2010). Numerous studies investigate the effect of gender diversity on boards, which is typically advocated on the grounds of achieving greater social equality or expanding the talent pool of directors. However, it is unclear whether gender is the most significant aspect of director diversity since far less research has been conducted on other aspects as well (Bernile et al., Yonker, 2016). In the United Kingdom's Financial Times Stock Exchange (FTSE) 350 firms, women accounted for 35.3% of

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senior leadership roles as of 2024. Forecasts, however, suggest that the goal of having 40% of chief executive officers (CEOs) be female by the end of 2025 may not be met. Furthermore, only 42 women held executive roles in 2024, down from 47 in 2022, representing an 11% decrease in the number of female executive directors in FTSE 250 companies (The Guardian, 2024).

In recent years, the issue of board diversity has garnered significant attention worldwide. Board diversity refers to the representation of different demographic groups, including gender, ethnicity, age, and nationality, on corporate boards. Several factors have contributed to this growing interest, including regulatory changes and investor pressure advocating for greater diversity and inclusion. One significant development has been the increasing adoption of board diversity quotas and targets by governments and corporations worldwide. For instance, several European countries have implemented quotas for women on corporate boards, including Spain, Iceland, France, the Netherlands, Belgium, and Italy (Teigen, 2012). These quotas have been successful in increasing female representation on boards, with Norway achieving a 40% target in 2009 (Teigen, 2012). The European Parliament officially adopted the new European Union (EU) law requiring gender parity on corporate boards in November 2022. According to the European Commission (2022), companies will be required to have 40% of the underrepresented sex among non-executive directors or 33% among all directors by 2026. Other than that, investor pressure has been a key driver of board diversity initiatives. Institutional investors, such as BlackRock and State Street Global Advisors, have been vocal advocates for greater board diversity, with some even threatening to vote against boards that lack diversity, according to BlackRock and State Street Global Advisors. This pressure has led to greater disclosure of board diversity data and the establishment of diversity committees on boards.

A 2020 study by McKinsey & Company discovered that companies with diverse boards outperform their less diverse peers in terms of financial performance. The report states that companies in the top quartile for ethnic and cultural diversity on their executive teams have a 36% higher likelihood of outperforming on Earnings Before Interest and Tax (EBIT) margin than companies in the bottom quartile, as indicated in their 2019 data set. Similarly, in their 2019 dataset, it was found that companies in the top quartile for gender diversity on executive teams are 25% more likely to achieve profitability above the average compared to companies in the bottom quartile. Although some advancements have been achieved, there is a considerable amount of work that remains to be accomplished. According to a report by Deloitte in 2021, women and minorities held 38% (2,253) of board seats for Fortune 500 companies. Although there has been an improvement from the 2018 statistics, in which women and minorities held 34% of board seats, there is still a significant underrepresentation of women and minorities at boardroom tables across these companies. Thus, board diversity has become a global issue, with increasing attention being paid to the need for greater representation of diverse groups on corporate boards. The adoption of quotas and targets, as well as investor pressure, has all contributed to this growing interest. While progress has been made, there is still much work to be done to ensure that all forms of diversity are adequately represented in corporate leadership.

Board diversification, on the other hand, has also been introduced and partially practiced in Malaysia. Following the East Asian financial crisis in the mid-1990s, discussions of corporate governance gained attention in Malaysia. Before that, many businesses in Malaysia had grown and diversified due to the availability of this practice, which helped the companies expand. Most Malaysian companies' articles of association give the BOD complete management authority. Before board diversification became common in Malaysia, it was typical for board members to serve for multiple terms. However, things have changed since board diversification was implemented. Due to the newly adopted diversification, shareholders are no longer permitted to override the BOD's decisions unless those decisions are saved explicitly for the general meeting, where shareholders are also allowed to vote. Even though the company's owners are its shareholders, the BOD, which oversees the business, has considerable authority over it.

In agency theory, board diversity is motivated by the interests of the organisation's members, who may have interests in factors such as high pay, status, power, and reduced job risk. In Malaysia, organisations are advised to practice board diversification because it is believed that a more diversified board will be

better to carry out its supervisory duties. An effective board should include the right group of people, with an appropriate mix of skills, knowledge, experience, and independent elements that fit the company's objectives and strategic goals, regardless of their gender, color, race, or status. A board with the right composition will ensure sufficient diversity and independence to avert 'groupthink' or 'blind spots' in the decision-making process. Correspondingly, it will also enable the board to become better equipped in responding to challenges that may arise.

Board diversification in Malaysia is evident in various aspects. First, this is evident in gender diversity, where male and female directors are equally represented on gender-diverse boards. These directors bring a variety of views, skills, functional knowledge, stewardship methods, and risk-reward orientations to the table, thereby improving the caliber of board choices. Next, age diversity: A well-balanced mix of older and younger directors from various generations comprises an age-diverse board, which provides board debates with a comprehensive viewpoint. Thirdly, tenure diversity enables the board to leverage the continuity of senior directors' knowledge while mitigating the risks of groupthink and loss of independence by balancing the tenures of its directors. Next is cultural diversity, which explains that a mixture of cultural backgrounds and values shapes individuals' perceptions and behaviour, and enables the nurturing and reduction of bias and prejudice in decision-making.

This study aims to investigate the factors influencing board diversity in corporate governance. The study will focus on four independent variables — firm age, board gender diversity, firm size, and board composition — to determine their impact on board diversity as the dependent variable. Additionally, the study will examine the current issues and challenges associated with board diversification and investigate the potential benefits of diverse boards, including enhanced decision-making and improved representation of stakeholders. The study will provide practical recommendations for policymakers, business leaders, and stakeholders to promote diversity and address the underrepresentation of specific groups, including women and minorities. Overall, this study will contribute to the ongoing conversation on corporate governance, diversity, equity, and inclusion, and provide valuable insights for organisations seeking to enhance their board diversity.

2. LITERATURE REVIEW

2.1 Board Diversity

Board diversity is a term used to describe the presence of a variety of backgrounds, experiences, and perspectives among members of a company's BOD. This can encompass a range of dimensions, including but not limited to race, ethnicity, gender, age, education, and professional experience. The presence of diversity on the board has been shown to lead to better decision-making and problem-solving, as well as improved Corporate Social Responsibility (CSR) performance and firm performance. Board diversity is a crucial aspect of corporate governance that has been linked to numerous positive outcomes for both companies and society. Aguilera et al. (2007) discovered that board diversity can positively impact CSR performance, as diverse boards tend to be more sensitive to ethical concerns and stakeholder interests. Another research study by Daily and Dalton (1993) demonstrated that board diversity is positively associated with firm performance and innovation, suggesting that diversity is a valuable asset to organisations seeking to enhance their competitiveness and long-term success.

Board diversity is recognized as a form of social capital, which the BOD controls through its governance function (Baker, 2020). BOD is a significant power in supervising the company. They are responsible for the interests and contributions of shareholders. They must determine the company's vision and mission (Mgammal, 2022). Board diversity enables directors to monitor and enhance corporate governance, and it tends to lead to better financial and environmental, social, and governance performance. The benefit of a diverse board is that it can offer perspectives, expertise, and experience (Kabongo & Okpara, 2019). For example, an effective BOD should have diverse cultural backgrounds, including those of its employees and members. Thus, it can enhance decision-making and sharing of perceptions and experiences to achieve

good governance (Baker, 2020). Furthermore, the disadvantage of board diversity is that it may lead to conflicts among board members, such as disagreements and friction. They may be affected in their decision-making due to a lack of communication among members (Triana et al., 2014). In organisational theory, the demographic of board diversity encompasses different criteria, including gender, age, and nationality, which can enhance innovation within the organisation (Mgammal, 2022). Additionally, Yuan et al.'s (2024) study examined the impact of board diversity on investment inefficiency. Based on resource dependence theory and principal-agent theory, this study empirically investigates the impact of varied boards on a company's investment choices. The results imply that more diverse boards lead to more effective investment strategies for businesses.

2.2 Board Member

A group of board members is defined as a combination of skills and abilities that symbolize a group of social capital and add value in performing the board's governance function (Carpenter & Westphal, 2001). Board members are expected to protect the interests of investors by resolving any conflicts that may arise. Thus, enhancing the firm's performance. A good rotation of board members to lead and make broad decisions for an organisation is crucial, as it enables the organisation to avoid any issues of corporate governance arising. The staff supervising and monitoring management, as well as making decisions that will enhance the firm's performance, are heavily reliant on board members. That is one of the reasons why an organisation is recommended to diversify its board members by rotating them every few years. Note that a board member with a higher educational level has a positive effect on the performance of the firms. This is because the educational level provides important human capital for the adequate performance of board members' tasks (Arena et al., 2015). According to Carpenter & Westphal (2001) and Carver (2002), higher-qualified board members will assist the companies through a combination of talents and capabilities.

One of the essential skills that board members should engage in is creativity, as it is vital in decision-making and strategic planning. Meanwhile, members within the group may hold different beliefs and values, which can affect the decision-making process (Amar et al., 2013). Indeed, minority directors may possess different sensitivities and behavioural traits due to their socialisation experiences. They are more likely to have endured demarcation and, therefore, have a plaintive perceptiveness towards unfairness (Guest, 2019). On the other hand, it creates cognitive conflict in the decision-making process, such as debating among members when handling a project or allocating resources. A higher level of cognitive conflict can bring the opportunity for a broader overview (Amar et al., 2013). It implied that members have different opinions and perspectives. Meanwhile, board members are also classified as ethnic minorities, nationalities, or cultural traditions within the population. Ethnic minority directors would like to demonstrate that their position is merited, rather than being appointed due to policy initiatives taken by the company to extend employment or educational opportunities to them. It helps members contribute to a discussion group comprising individuals with diverse attitudes, human capital, and beliefs (Guest, 2019). Similarly, board members deliberately interact with one another. Interaction between members, either individually or in groups, influences outcomes. Having verbal or nonverbal communication among members can develop quality problem-solving. Furthermore, it also facilitates better goal achievement and greater productivity and efficiency in decision-making (Torchia, 2015).

How the actions and life experiences of individual board members influence community governance are critically examined by Kerwin et al. (2023). Their study demonstrates that board members' backgrounds and life experiences have a significant impact on governance procedures, decision-making processes, and the board's overall effectiveness. This implies that formal norms and regulations do not have the only influence on board governance. Individual members' viewpoints and values also have a significant impact. Diverse experiences among board members can improve governance by encouraging a wider range of perspectives, which results in more thorough decision-making, according to a significant finding of this study. However, it raises concerns about potential conflicts of interest, biases, and irregularities in governance practices. Personal experiences can help inform more compassionate and community-focused

decisions. They can also lead to subjective assessments that may not always adhere to best governance procedures. Consequently, the study highlights the necessity of formal board member training and development programs to balance individual viewpoints with established governance structures. Without these safeguards, the effectiveness of governance may vary based on the prevailing experiences on a board, potentially leading to uneven decision-making procedures among different firms. Hence, firms must ensure that governance structures remain strategic, objective, and aligned with long-term organisational goals, even though the experiences of board members can have a positive impact.

2.3 Firm Age

The number of years between the company's incorporation and the present can be used to calculate the firm's age (Memon et al., 2019). The duration can alternatively be expressed as the number of years since the company went public. Without considering how different corporate governance aspects interact with one another, firm age is negatively connected with the way a corporation conducts its operations. The relationship between a firm's age and its governance characteristics is substantially to blame for the adverse effect. For firms that have been in the market, it is expected that they will practice board diversification in their management, helping the firm avoid issues related to corporate governance. The larger the firm's age, the more experienced board members are available, enabling the firm to make wise decisions. There is an argument that firms with board members who have a higher average age will have a better experience than those with a younger average age on the corporate board, and this will only apply to firms that have been in the market for a long time. In Malaysia, it is reported that most board directors have less than nine years of board experience (Securities Commission Malaysia, 2011). It is believed that the board members' experience will improve and increase the effectiveness of a company's performance. Although there is some conflict in the view of the relationship between the boards' educational level and firm age, a theory on restrained resources suggests that the more experience of the board members will help them manage better in a business environment by working well in a firm that has a longer age of operation (Razali et al., 2018).

Without considering the interaction of different corporate governance aspects, company age is adversely connected with a business's use of debt, conditional on its use of debt. This finding contradicts existing ideas on the relationship between aged companies and corporate capital structures. However, when it comes to demonstrating, this detrimental effect mainly results from the combination of firm age and governance traits. In line with Strebulaev and Yang (2013), the corporate governance traits that strongly influence whether a firm uses debt differ from those that influence how much debt the firm uses if it uses debt. Researchers established that dual-class firms are more likely to be all stock enterprises at first, but also more likely to employ debt as they age as public corporations. Consequently, researchers interpret this evidence to mean that these enterprises seek lower-cost external funding to support their expansion because selling new equity may be more expensive. In addition, a firm's corporate charter provisions and board composition are related to missing factors in regression models of how much debt financing a firm decides to use, conditional on its use of debt. The researcher's evidence agrees with Karpoff et al. (2017) regarding company charter clauses. More crucially, these omitted elements are negatively connected with the firm's use of debt financing. This could explain previous evidence of negative correlations between these governance aspects and corporate debt use. In the corporate age, the corporate charter and board composition can impact capital structure decisions in ways that may not be anticipated when the firm is young. This evidence supports the arguments made by Filatotchev et al. (2016) and Johnson et al. (2016). Furthermore, these shifts explain why firm age is negatively connected with the amount of debt financing a firm uses.

2.4 Board Gender Diversity

According to Reddy and Jadhav (2019), board gender diversity refers to the presence of individuals from diverse genders, including but not limited to males, females, and non-binary individuals, on the BOD of an organisation. This includes both executive and non-executive directors, aiming to promote a more inclusive

and representative decision-making process at the highest levels of an organisation. Reddy and Jadhav (2019) also note that board gender diversity is becoming an increasingly important issue in today's business world as organisations recognize the benefits of having diverse perspectives and experiences represented on their boards. This concept highlights the importance of having a balanced representation of both genders in positions of leadership and decision-making to ensure that diverse perspectives are considered when making strategic decisions.

CSR ratings, stock price in terms of formativeness, high-quality earnings, financial restatements, financing and acquisition decisions, corporate social performance, analysts' earnings forecast accuracy and dispersion, M&As, strategic change, corporate opacity, and firm risk are examined. Bear et al. (2010) find that board gender diversity improves the CSR ratings of United States (US) businesses. CSR ratings mitigate the association between board gender diversity and firm reputation. On the other hand, Nielsen and Huse (2010) studied Norwegian keyboard processes and gender diversity. The authors find that board gender diversity improves board development and strategic control. Gender diversity on corporate boards improves financial transparency and decision-making in US companies, according to research. According to Gul et al. (2011), businesses with gender-diverse boards have stock prices that more accurately reflect firm-specific information, which benefits women's earnings. Abbott et al. (2012) assessed that having a diverse mix of genders on the board reduces the risk of financial restatements. Furthermore, Huang and Kisgen (2013) discovered that women on corporate boards are generally less overconfident than men, which leads them to be more cautious when making financing and acquisition decisions. Similarly, Hagedorff and Keasey (2012) determined that companies with more women on their boards typically assume lower levels of business risk than those with mostly men.

Research has shown that gender diversity on corporate boards has a significant impact on corporate social performance. Hafsi and Turgut (2013) highlighted the positive impact of gender-diverse boards on CSR. Furthermore, according to Boulouta (2013), the "empathic caring" of female directors is crucial in shaping CSR policies, particularly those aimed at eliminating detrimental business practices. Gul et al. (2013) examined the relationship between board gender diversity and earnings projection accuracy in US firms, finding that gender-diverse boards are associated with higher analyst earnings prediction accuracy and reduced forecast dispersion.

Gregory et al. (2013) assessed how the market responds to the trading practices of female directors in UK companies. According to their findings, the market eventually comes to appreciate the informational value of female-led businesses, even though it initially reacts negatively to trades made by female directors. Similarly, Triana et al. (2013) investigated how firm performance, the power possessed by female directors, and board gender diversity impact strategic decision-making in American corporations. According to their research, when company performance is steady, and women directors have more authority, board gender diversity improves strategic capacity. However, more female directors can have a detrimental effect on strategic capacity in companies that face performance risks.

According to research by Levi et al. (2014), American companies with a larger percentage of female directors are less likely to make acquisitions and, when they do, typically pay lower bid premiums. Upadhyay and Zeng (2014) utilized metrics such as share turnover, forecast accuracy, analyst following, and bid-ask spreads to assess corporate opacity. According to their findings, US companies with a diverse workforce tend to be more transparent. Using information from the Carbon Disclosure Project, Liao et al. (2015) examined how voluntary disclosure of Greenhouse Gas (GHG) emissions in United Kingdom (UK) companies is impacted by board gender diversity. Gender diversity and the degree and willingness to disclose GHG emissions are positively correlated. In line with this, Perrault (2015) established how women on American corporate boards can enhance board performance overall and disrupt networks of all-male directors. According to the study, through both substantive and symbolic representation, female directors contribute to the board's relational dynamics, moral legitimacy, and effectiveness. All these elements work together to increase shareholder trust and strengthen board legitimacy.

A study by Xiao (2024) examined the impact of female leadership on a company's financial constraints. The study, which utilizes data from publicly traded entrepreneurial businesses in China, concludes that businesses with female CEOs or a higher percentage of women in senior management have fewer financial limitations. This demonstrates how having a diverse mix of genders in leadership has financial advantages. The significance of board diversity in bolstering corporate governance, enhancing investment efficiency, improving risk management, and enhancing overall business performance is further highlighted by this and other research. Additionally, they highlight the intricacy of diversity—which encompasses more than just gender and race—and show how its effects vary depending on the organisational setting.

2.5 Firm Size

Siahaan (2013) asserted that market capitalisation, revenue, logarithmic size, and total assets can all be used to gauge a company's size. According to Siahaan's research, larger companies have a more substantial impact on market conditions than smaller companies, which gives them a greater ability to compete economically. This benefit, though, is only available if the company's governance effectively diversifies its board. On the other hand, Levrau and Van (2007) defined firm size as the number of directors on the board. They claimed that because a greater range of skills is available for decision-making, firms with larger boards typically perform better. Additionally, one of the main factors influencing investor confidence is the size of the company. The natural logarithm of total assets has been used to measure firm size in several studies, and the results show a positive correlation between firm size and performance (Asimakopoulus et al., 2009; Nunes et al., 2009; Pratheepan, 2014; Nakatani, 2019). Furthermore, Goddard et al. (2005) discovered a link between a company's size and success. Given their awareness of the detrimental correlation between board size and organisational performance, larger companies are more likely to implement board diversification. On the other hand, corporate governance problems are more likely to arise in smaller businesses or those that are not used to having a diverse board, which could result in operational inefficiencies.

Stock prices, which represent investor expectations and perceptions, are frequently used to assess a company's worth. The primary goal of a business is to increase firm value to maximize shareholder wealth. A company's stock price will rise, and its market value will increase if it is thought to have promising prospects. Market value or book equity value, where equity is the company's capital on the balance sheet, can be used to determine the value of a business. Corporate value frequently surpasses nominal value due to variations in market conditions and company performance. Using indicators such as the Price-Earnings Ratio (PER), Price-to-Book Value (PBV) ratio, Market-to-Book Ratio (MBR), dividend yield ratio, and dividend payout ratio, Brigham and Houston (2011) proposed that ratio analysis can be used to assess market value. PBV, which measures a company's capacity to generate value from invested capital, was chosen as the mediating variable in this investigation. Furthermore, greater value creation is indicated by a high PBV, which shows that the stock price is near its book value. PBV-based company valuation has discovered a strong correlation between profitability and investor confidence (Manoppo & Arie, 2016; Hamidah & Umdiana, 2017; Suffah & Riduwan, 2016; Sucuahi & Cambarihan, 2016; Abeywardana & Krishanthi, 2015; Tiska, 2015).

The ratio of a company's long-term debt to equity is known as its capital structure. The pecking order theory posits that, because they rely on internal finances, businesses with higher profitability tend to have lower debt levels (Myers, 1977). According to this notion, businesses favor internal funding over borrowing from outside sources. This idea was further developed by Megginson et al. (2007), who explained that businesses prioritize internal money to reduce the risks associated with external financing. As a result, very profitable businesses tend to have lower debt levels. By weighing the advantages of debt financing (like advantageous corporate tax treatment) against the disadvantages of higher interest rates and possible bankruptcy risks, businesses can create an ideal capital structure, according to the trade-off theory of leverage (Brigham & Houston, 2011). A company's capacity to pay off debt with capital is gauged by the Debt-to-Equity Ratio (DER). A high DER can lower company value and erode investor confidence. In their

analyses of capital structure, Manoppo and Arie (2016) and Ahmad et al. (2015) have used DER as a crucial variable. Additionally, investor expectations regarding dividend payments are influenced by the firm's size as determined by asset value. More investors are drawn to larger companies, which raise stock prices and the firm's overall worth. Because larger companies are thought to be more financially stable and able to produce steady returns, investors are willing to pay more for their shares (Brealey et al., 2011).

One of the crucial measures of corporate performance is profitability, which is the capacity of a business to make money from its assets. Profitability, according to Sucuahi and Cambarihan (2016), is a gauge of successful corporate performance management. Since increased profitability boosts investor confidence, profitability has a direct impact on corporate value. Since Return on Equity (ROE) considers a company's capital structure, which includes both long-term debt and equity, this study utilized it to gauge profitability (Sucuahi & Cambarihan, 2016; Manoppo & Arie, 2016).

3. PROPOSED RESEARCH FRAMEWORK

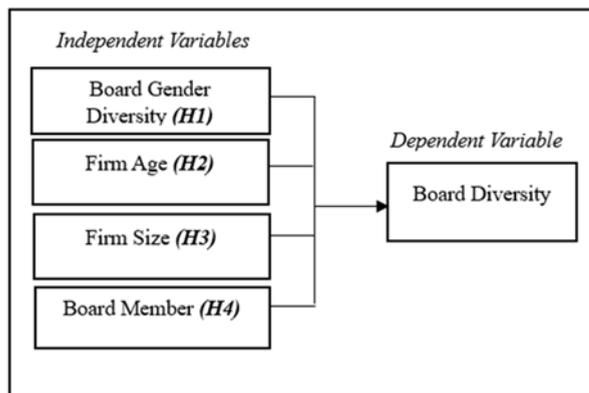


Fig. 1. Proposed Research Framework

In terms of gender diversity, women's networks are more diverse, as they can develop critical resources from suppliers (Islam, 2022). They are compassionate and lead to a more caring outlook, helping to develop values among diverse consumer groups. Meanwhile, females may be attracted to the organisation because the presence of women may inspire outsiders to view lower-level female members more favourably (Ali, 2014). Gender diversity leads to diverse thinking tactics and skills. Next, firm age is considered causal. Basically, larger firms are stable in performance, including board diversity, as larger firms have operated for a longer period. Compared to small and medium firms, they may face a higher failure rate in the first five years of operation. The size of the firm is also considered a variable, as when capital increases, the firm's rate of growth also increases. Therefore, firms are always taking opportunities to gain profitable growth. The responsibilities of board members include maintaining good connections and relationships among the members of a company. Therefore, disagreement and conflict are prohibited to maintain diversity among the members' behaviours or attitudes.

4. METHOD

To conceptually investigate the relationship between board diversity and corporate governance as tools that support ethical leadership and sustainable growth, this study uses a narrative literature review methodology. Synthesising theoretical viewpoints, contextual variances, and empirical findings from a variety of interdisciplinary studies is especially well-suited for a narrative approach. Moreover, this approach enables a more flexible and in-depth examination of key constructs and their relationships within the corporate governance framework, in contrast to systematic reviews that rely on strict inclusion criteria.

Peer-reviewed journal articles, conceptual papers, empirical research, and policy reports from the past two decades are all included in the reviewed literature. Keywords such as "board diversity," "corporate governance," "ethical leadership," "sustainable growth," "firm size," "gender diversity," and "board demographics" were used to search databases including Scopus, Web of Science, and Google Scholar. Relevance to the following central sub-themes served as a guide for the selection:

Board Diversity

This section views board diversity as an evolving idea that takes into account differences in tenure, gender, ethnicity, professional experience, and educational background. The narrative review examines how having a diverse board enhances stakeholder engagement, risk management, and decision-making, ultimately promoting ethical behaviour and long-term viability.

Board Member Characteristics

This subsection examines the personal qualities of board members, including their independence, knowledge, and leadership principles, as well as how these qualities influence board dynamics and corporate governance results. Other than that, how these characteristics support moral leadership and corporate responsibility is also highlighted.

Firm Age

The narrative review demonstrates how a company's level of maturity affects its governance and diversity-friendly policies. While older firms might stick to traditional governance models, younger firms might be more open to innovation and inclusivity. This section synthesizes findings on how firm age moderates the relationship between board diversity and performance.

Board Gender Diversity

The role of gender diversity on boards is the specific focus of this section, which also discusses the business and ethical arguments in favour of female representation. To assess the ethical requirements and factual data in favour of gender-balanced boards, the review incorporates institutional theories, stakeholder theories, and legitimacy theories.

Firm Size

One contextual factor affecting the implementation and effects of board diversity is firm size. Due to increased regulatory pressures and stakeholder scrutiny, larger companies are more likely to implement inclusive governance practices. The story incorporates research on how board composition, strategic flexibility, and ethical supervision are influenced by firm size.

To conceptualise how board diversity, in its various dimensions, enhances the efficacy of corporate governance, this study synthesizes various strands of literature using a narrative review approach. A comprehensive understanding of the intricate relationships between board attributes, firm-level factors, and broader sustainability objectives is facilitated by the narrative approach.

4. DISCUSSION AND CONCLUSION

In summary, this study examined the impact of board member characteristics, firm age, board gender diversity, and firm size on board diversity in corporate governance. Board diversity in corporate governance plays a crucial role in shaping the governance function and overall performance of companies. The findings underscore the importance of board member characteristics, including educational background, professional expertise, and prior board experience, in shaping board diversity. Additionally, firm age also

positively correlates with board diversity, suggesting that older firms tend to prioritise diversity on their boards. The study also highlights the positive impact of board gender diversity on overall board diversity, underscoring its importance in promoting diverse perspectives and experiences. Firm size showed mixed effects on board diversity, emphasising the need to consider additional factors. However, it was found to be complex, suggesting the need for further examination. These findings provide a deeper understanding of board diversity and its impact on organisational performance, effective decision-making, and stakeholder value. Ultimately, promoting and nurturing board diversity is crucial for fostering inclusive and effective corporate governance practices.

In the complex context of board diversification for enhanced corporate governance practices within organisations, management must play a key role in ensuring the smooth implementation of board diversification. A diverse board is thought to be better equipped to make decisions by reducing the likelihood of "groupthink," paying closer attention to risk management, and having a deeper understanding of the company's customers. The directors develop strategies through effective problem-solving and critical analysis. 'Groupthink,' which is defined as a psychological tendency to minimise disagreements and arrive at a consensus choice without carefully considering alternatives in a supportive in-group context, is one of the traps that underlie the decision-making process in the boardroom. This groupthink can be practiced by implementing board diversification in an organisation. It is believed that combining the contributions of a diverse group of individuals will enable senior management teams to approach issues from a broader range of viewpoints, highlight challenging issues, and engage in more spirited discussions. A dynamic boardroom can vary, and judgments made using a variety of perspectives are more likely to be of higher quality than those made in a setting where "groupthink" is prevalent. Thus, it is a good endorsement for an organisation to implement board diversification without bias to any of the factors in deciding the board, as it will help the organisation to grow and develop better over time.

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CONFLICT OF INTEREST STATEMENT

The authors agree that this research was conducted in the absence of any self-benefits, commercial or financial conflicts, and declare the absence of conflicting interests with the funders.

AUTHORS' CONTRIBUTIONS

Jaya Kumar Shanmugam conceived the research idea and framework, conducted the conceptual analysis, wrote the initial draft of the manuscript, integrated all sections into a cohesive paper, and led the critical review and finalisation of the manuscript. Roshima Haji Said provided expertise in corporate governance theories and sustainability practices, contributed to the literature review and conceptual model development, and critically revised the manuscript for theoretical depth and academic rigor. Raja Nasrul Idzhar Raja Ismail contributed to the discussion on board diversity mechanisms, ethical leadership frameworks, and policy implications. He also assisted in refining the argumentation and ensuring alignment with contemporary governance standards. Noor Asrafez Jailuddin assisted in structuring the manuscript, contributed to sections on sustainable growth strategies, and performed a comprehensive review of supporting academic and industry sources, as well as provided editorial and formatting support. Zulyanti Abd Karim contributed to the ethical leadership and stakeholder perspectives in the conceptual framework, and assisted in editing and ensured coherence and clarity of the manuscript for publication.

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