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Board Gender Diversity and Financial Stability: The Moderating Effect of Board Independence

Godwin Ahiase[1], N Nugraha[1], Maya Sari[1], Denny Andriana[1], Percy Chris Kpodo[2], Philipina Ampomah[3].*

[1]Faculty of Business, Universitas Pendidikan Indonesia, Indonesia.

[2]University of North Dakota, United States.

[3]Cape Coast Technical University, Ghana.

*Correspondence: E-mail: *godwinahiase@upi.edu*

ABSTRACT

This study examines the effect of board independence on the relationship between board gender diversity and financial stability in emerging African countries. A causal research design is employed, using data from 190 listed firms in nine emerging African economies covering 2012 to 2022. The study utilizes the two-step dynamic generalized moment method for data analysis. The findings reveal a significant relationship between board independence, financial stability, and gender diversity. The study underscores the importance of having a gender-inclusive board composition to enhance the resilience of companies operating in Africa. It also emphasizes the significance of board independence and effective board operations in promoting financial stability. The theory and practical implications are provided for policymakers and firm managers to enhance the financial stability of firms in emerging African economies. The study examines the combined relationship between board independence and gender diversity, highlighting the benefits of fostering independent and inclusive governance structures. The study contributes to academic discourse and establishes a strategic plan to foster sustainable development and stability in the corporate sector of emerging economies.

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1. INTRODUCTION

Recent discussions have centred on the necessity for corporate boards to have a diverse representation of gender (Ozili, 2024). Growing evidence indicates that this may yield positive results for the performance and overall management of corporate entities (Eliwa et al., 2023; Lee and Thong, 2023; Rahman et al., 2023). This study contributes to the current body of knowledge by analyzing the relationship between board gender diversity and the financial stability of selected non-financial firms listed in emerging African economies. While some studies have examined the relationship between gender diversity and firm financial stability (Chijoke-Mgbame et al., 2020; Mansour et al., 2024; Mpofu, 2023), additional research is required to delve into the unique characteristics of African economies.

Emerging economies, renowned for their swift growth and dynamic markets, present an optimal setting to analyze the influence of diversity in boardrooms on financial stability (Almarayeh, 2023; Arvanitis et al., 2022; Lee and Thong, 2023). However, these economies encounter challenges such as limited access to financial resources and substantial systemic weaknesses. Existing studies on the relationship between gender diversity and firms' financial stability mainly focus on developed economies, which limits the understanding of how these dynamics may operate in the African context (Arora, 2022; Lee and Thong, 2023; Pareek et al., 2023; Yilmaz et al., 2023). Furthermore, although some studies have examined the influence of gender diversity on financial stability, an all-encompassing analysis that incorporates the moderating influence of board independence is currently lacking (Abou-El-Sood, 2021; Dobija et al., 2022; Karina et al., 2023; Lee and Thong, 2023).

Therefore, this study examines the effect of gender diversity on the financial stability of non-financial firms listed in emerging African countries to fill this gap (Guizani and Abdalkrim, 2023; Kara et al., 2022; Karim et al., 2023; Pareek et al., 2023). This study specifically examined the moderating effect of board independence on this relationship. The extent of board independence plays a crucial role in assessing the influence of gender diversity on corporate risk management and financial decision-making (Kilincarslan, 2021; Pham and Nguyen, 2020; Qa'dan and Suwaidan, 2019; Rahmawati and Kartika, 2023; Tulcanaza-Prieto et al., 2024). By examining this moderating effect, this study enhances our understanding of the multifaceted relationship between board independence and financial stability in this specific setting.

The dynamic markets and rapid expansion of emerging countries offer an optimal setting for analysing the influence of boardroom diversity on financial stability (Almarayeh, 2023; Arvanitis et al., 2022; Lee and Thong, 2023). However, these economies encounter challenges, such as limited financial resources and substantial structural vulnerabilities (Ilona et al., 2022). Despite the growing interest in the gender diversity of board members, previous research has primarily focused on established economies. This has led to a lack of understanding of the impact of board gender diversity in developing markets, particularly in Africa. Several studies have neglected to account for the unique challenges companies face in these regions, such as the limited availability of financial resources and their inherent vulnerabilities (Kartika et al., 2021). Additionally, studies on the influence of board independence as a moderating factor in the correlation between financial stability and gender diversity are scarce. Thus, this study overcomes these constraints by presenting novel findings on the relationship between gender diversity and financial stability in developing nations, emphasising the influence of board independence, and undertaking an examination of the African setting. Current studies on the relationship between gender diversity and corporate financial stability are primarily concentrated in developed countries, which limits our understanding of how these dynamics can operate in an African context (Arora, 2022; Kara et al., 2022; Lee and Thong, 2023; Pareek et al., 2023). Furthermore, although some studies have investigated the influence of gender

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diversity on financial stability, there is still a scarcity of comprehensive research that considers the moderating effect of board independence (Abou-El-Sood, 2021; Dobija et al., 2022; Karina et al., 2023)

This study significantly contributes to the ongoing discourse on the correlation between financial stability in emerging economies and board diversity. It accomplishes this by utilizing board independence as a moderating variable to resolve the existing voids in research and provide a novel perspective. The main purpose of This study examines the financial stability of non-financial companies in emerging African markets by examining the combined impact of board independence and gender diversity. This study not only fills significant research gaps in the literature but also provides practical insights pertinent to the broader accounting community. This study's implications are important for corporate managers, regulators, and legislators. This study underscores the necessity for legal frameworks that promote board independence and gender diversity to enhance corporate governance standards for policymakers. Information acquired by corporate executives can influence the development of board structures that are more inclusive and independence, thereby improving financial stability and resilience. This study enhances our understanding of how governance elements influence financial outcomes in the field of accounting and finance. This contributes to the development of robust and resilient financial systems in developing countries.

2. METHODS

This study uses a causal (explanatory) research design with a quantitative approach to examine the influence of board gender diversity on financial stability in nine (9) emerging African countries (Botswana, Ghana, Ivory Coast, Kenya, Mauritius, Namibia, Nigeria, Rwanda, and South Africa). The causal study approach was employed because of its ability to establish cause-and-effect correlations between financial stability and board gender diversity. This method is well suited for this research because it enables an examination of the effect of board independence on the primary connection. This study employed a quantitative methodology that enabled both objective and statistical analyzes. This method improves the validity and reliability of the results. The research design is also justified because statistical analyzes and numerical data help with objective measurements and reliable findings. Data were obtained from 190 publicly traded firms operating in these emerging African nations over 11 years (2012-2022). Sufficient firm-year data comprising 2,090 observations are available for reliable statistical analysis. Countries and firms were selected based on data accessibility, ensuring reliable and consistent data. Refinitiv, a renowned financial data source, was used to obtain this crucial data for all the variables employed in the study. This study used a two-step dynamic generalized method of moments (GMM) to examine the data. Panel data analysis uses this instrument to reduce endogeneity issues and provide more accurate estimates. The GMM technique guarantees the reliability and robustness of the findings by effectively managing unobserved heterogeneity and omitted variable bias. Moreover, the diagnostic tests used to assess the robustness of the regression models include the Wald chi-squared test, AR (1) and AR (2) tests for autocorrelation, and the Sargan and Hansen tests for instrument validity. The study used Stata version 15.2 for data analysis.

The dependent variable is *financial stability,* measured as the *debt-to-equity ratio (DER).* This proxy is commonly employed in several studies and reflects a firm's financial leverage. Lower DER denotes stronger financial stability and less reliance on debt. *Board independence* is a moderating variable and is measured as the proportion of independent directors on the board.

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Outside directors, as they are often referred to, are not influenced by management for personal gain, can offer diverse perspectives, and promote prudent decision-making, potentially impacting the influence of gender diversity on the board's financial stability. The independent variable is *board gender diversity* with *board gender diversity (%)* which evaluates the overall gender representation in the boardroom and *females on the board measured* as the binary variable 1 indicating the presence of at least one female director, and 0 otherwise, to examine the influence of female presence on financial stability. The study also accounts for confounding factors by incorporating covariates such as *board effectiveness* measured with board meeting frequency, *board size* measured with the total number of directors on the board, year dummies to control for time-specific variations that may influence financial stability, and country dummies to account for country-specific characteristics that could influence financial stability.

The study employed a two-step dynamic generalised moment method (GMM), which is a panel data analysis method to examine the study variables. This panel data analysis technique is reliable in addressing endogeneity issues.

Thus, the general GMM model is stated as

$$Y_{it} = \alpha + \beta Y_{it-1} + \gamma X_{it} + v_{it} \tag{1}$$

The empirical model is as follows:

$$FS_{it} = \alpha + \sigma_1 FS_{it-1} + \sigma_2 DGDIV_{it} + \alpha_3 M_{it} + \alpha_4 X_{it} + \varepsilon_{it} \tag{2}$$

where FS_{it} is the dependent variable (debt-to-equity ratio) for firm i at time t, $DGDIV_{it}$ signifies gender diversity (board gender diversity (%) and female on board) for firm i at time t, M_{it} is the moderating variable (board independence) for firm i at time t, X_{it} represents covariates (board effectiveness, board size, time dummies, country dummies)) for firm i at time t, FS_{it-1} represent the lagged of the dependent variable, ε_{it} is the error term and σ_1 - α_4 are the coefficients of the variables in the model.

3. RESULTS AND DISCUSSION

3.1 Descriptive Statistics and Correlation Analysis

The analysis presented in the input provides a comprehensive summary of the main variables used in this study. **Table 1** displays the descriptive statistics of these variables, including average values, ranges, and variations. The average debt-to-equity ratio suggests that the sample companies have modest financial leverage. The average proportion of female directors indicates a significant lack of gender diversity in business management in rising African economies. The average value of board independence suggests varying degrees of board autonomy, whereas average board size indicates a well-rounded approach to board composition. The efficacy of the board, measured by the frequency of board meetings, exhibited considerable variance.

Table 2 presents the Pearson correlation matrix that shows the connections between the main variables. Several significant associations were found. There is a positive association between board independence and gender diversity, suggesting that companies with a greater percentage of independent directors are more likely to have boards that are more gender-diverse. There is also a modestly positive relationship between board size and gender diversity,

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indicating that larger boards are more inclined to include female directors. However, there is a negative link between board effectiveness, as measured by meeting frequency, and both board gender diversity and number of female directors. This suggests that boards with greater gender diversity may have fewer meetings, possibly because of superior early strategy planning and streamlined decision-making procedures.

Table 1. Descriptive statistics

Variable	Obs.	Mean	Std. Dev.	Min	Max
FS	2,090	0.0085	0.0067	-0.0029	0.018
BGDIV	2,088	13.747	8.550	0	57.143
FoB	2,088	13.644	8.662	0	57.143
BIND	2,088	44.421	12.905	0	84.615
BS	2,088	11.599	1.788	6	18
BMF	2,088	0.346	0.476	0	1

Note(s): FS: Financial stability; BGDIV: Board gender diversity; FoB: Female on board; BIND: Board independence; BS: Board size; BMF: Board effectiveness.
Source: Refinitiv (2012-2022)

The analysis also indicated that there was no multicollinearity issue among the variables, ensuring that regression analysis could accurately assess the associations between the variables. This analysis provides important insights into the structure and behaviour of corporate boards in growing African markets. The significant variations in gender diversity, board independence, and board size highlight the diverse governance practices observed across different organizations. The relationship between board independence and gender diversity suggests the potential for these governance factors to work together to enhance financial stability. However, the inverse relationship with board efficiency indicates a need for further investigation to understand the complex effects of diverse onboard operations.

Table 2. Pearson correlation matrix

	FS	BGDIV	FB	BIND	BS	BMF
FS	1					
BGDIV	-0.0001	1				
FoB	0.0009	0.0920**	1			
BIND	0.0314	0.5956**	0.4077***	1		
BS	0.0819**	0.3107**	0.3272**	0.0650**	1	
BMF	0.0022	-0.2662*	-0.2781*	-0.2426**	-0.1961**	1

Note(s): ***,**, and *represent the 1%, 5%, and 10% significance levels, respectively. *FS, financial stability; BGDIV: Board gender diversity; FoB: Female on board; BIND: Board independence; BS: Board size; BMF: Board effectiveness (average board attendance).*
Source: Refinitiv (2012-2022)

3.2 Regression Analysis Using Two-Step System GMM

This study in **Table 3** established the validity and robustness of the regression analysis by obtaining positive results from various diagnostic tests. These tests encompass the Wald $\chi 2$, AR (1), AR (2), Sargan, and Hansen-J tests. The findings suggest that the models effectively addressed autocorrelation issues, the instruments utilised were considered valid, and the Wald

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χ2 test exhibited a significant explanatory capability. These diagnostic tests provide additional confirmation of the reliability and strength of the regression analysis.

Table 3. Regression results on board gender diversity, board independence and financial stability

	Dependent variable: Financial Stability			
	Bassline model		Robustness testing model	
	System GMM		Difference GMM	
Variable	BGDIV	FoB	BGDIV	FoB
Constant	3.513***	0.622***	1.071***	1.660***
	(21.42)	(23.52)	(19.63)	(18.67)
FS(-1)	3.352***	0.815***	0.815**	0.684***
	(3.86)	(2.90)	(2.90)	(7.90)
BGDIV	0.014***		0.005*	
	(2.84)		(1.82)	
FoM		0.145***		0.035***
		(20.57)		(10.88)
BIND	0.798***	0. 843***	0.748**	0.168***
	(19.33)	(13.13)	(2.74)	(4.14)
BIND× BGDIV	0.012***		0.003**	
	(4.83)		(2.11)	
BIND× FoB		0.019***		0.008***
		(4.60)		(14.54)
BS	0.023*	0.118***	0.124***	0.091***
	(2.61)	(27.93)	(7.66)	(7.87)
BMF	0.012***	0.023***	0.023***	0. 843***
	(4.83)	(6.94)	(7.32)	(13.13)
Time dummies	Yes	Yes	Yes	Yes
Country dummies	Yes	Yes	Yes	Yes
AR(1)	(0.982)	(0.772)	(0.731)	(0.602)
AR(2)	(0.436)	(0.592)	(0.591)	(0.459)
Sargan OIR	(0.998)	(0.796)	(0.663)	(0.638)
Hansen OIR	(0.726)	(0.563)	(0.683)	(0.735)
Wald χ^2	835.63***	833.84***	137.87***	138.007***
Instruments	24	24	22	22
Firms	190	190	190	190
Observations	1,898	1,898	1,708	1,708

Note(s): ***,**, and *represent the 1%, 5%, and 10% significance levels, respectively. *FS, financial stability; BGDIV: Board gender diversity; FoB: Female on board; BIND: Board independence; BS: Board size; BMF: Board effectiveness (average board attendance).*
Source: Refinitiv (2012-2022)

3.3 Board Gender Diversity and Financial Stability

The findings in **Table 3** demonstrate a statistically significant association between financial stability, board independence, and gender diversity in emerging African countries. Financial stability is particularly associated with the inclusion of at least one female director and diverse gender composition on the board. This result aligns with other studies that emphasize the

benefits of diverse gender representations in corporate governance. Boards that include various members are more inclined to foster original and creative thinking, improve their ability to solve problems, and offer a range of viewpoints. These factors may lead to a more effective oversight of financial matters and strategic decisions. Empirical data from the studies undertaken by Rahman et al. (2023), Lee and Thong (2023), and Eliwa et al. (2023) support the notion that variety positively impacts financial stability. These studies demonstrate that gender diversity has the potential to improve board dynamics and corporate performance by minimizing groupthink, enhancing conversation quality, and considering a wider variety of stakeholder interests.

The current study strengthens previous findings, particularly in the context of emerging African countries, where there is a lack of research on this subject (Chijoke-Mgbame et al., 2020). This highlights the capacity of diverse boards to strengthen the financial stability of firms operating in rapidly changing areas. The many distinct viewpoints and outlooks that women provide to the executive may greatly benefit developing economies, which are characterised by rapid growth and dramatic transformations. In such dynamic contexts, where market circumstances and company risks may change rapidly, the ability to use a wide range of skills and viewpoints is crucial for overcoming challenges and taking advantage of opportunities. Hence, the importance of advocating for inclusive governance practices is emphasized by the direct relationship between financial stability in emerging African countries and the variety of women's representation on corporate boards. Resource dependence theory supports the findings of the study that having diverse board memberships can benefit corporations (Pfeffer and Salancik, 1978), especially in emerging African markets. These markets often face unique challenges such as limited financial resources and structural deficiencies. Therefore, firms can improve their performance and stability by accessing a wide range of resources and networks through diverse board members. This finding highlights the importance of considering corporate board composition to overcome specific challenges in different markets.

3.4 Moderating Effect of Board Independence

This study further emphasizes the significance of board independence in fostering financial stability. The findings of the studies conducted by Rahmawati and Kartika (2023), Kilincarslan (2021), and Pham et al. (2020) align with the positive correlation shown between board independence and the coefficient. These studies highlight the significance of independent directors in decision-making and risk management. Independent directors, who are not influenced by corporate management, may provide impartial oversight and ensure that the management is held responsible, thereby improving the credibility of financial reporting and protecting the interests of shareholders. Boards that exhibit higher levels of autonomy and strictly follow robust governance structures play a crucial role in fostering a stable financial environment through their provision of independent supervision. This finding strengthens the connection between financial stability and the independence of the governing boards, especially in emerging African countries. This is consistent with agency theory, which highlights the significance of autonomous supervision in reducing conflicts of interest within a firm and safeguarding shareholders' interests (Jensen and Meckling, 1976). The strong interaction effects between board independence and gender diversity indicate that these governance elements collaborate to enhance financial stability.

Independent boards have superior proficiency in building robust checks and balances, ensuring that management's actions align with the company's long-term goals and stakeholders' welfare. Independent directors may have a significant impact on the development of African nations, especially considering that corporate governance principles

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are still maturing in these regions. They possess the capacity to mitigate the risks linked to management opportunism, corruption, and inefficient regulatory frameworks. Independent boards strengthen the financial system's overall stability by promoting openness and accountability, thereby bolstering investor trust. This study's findings emphasize the crucial importance of board independence in preserving financial stability, especially in places where economic and institutional frameworks may pose additional governance difficulties. Furthermore, this study finds that an increase in board size is linked to enhanced financial stability. Larger boards offer a more diverse range of perspectives and specialized expertise, potentially improving decision-making quality and the ability to mitigate risks. This finding is consistent with those of Almarayeh (2023) and Arvanitis et al. (2022). They also emphasized the benefits of larger boards. However, further research is needed to determine the optimal board size and its specific effects in the unique context of developing African economies.

These findings underscore the importance of board effectiveness in promoting financial stability. The significance of directors actively participating in board meetings and effectively fulfilling their responsibilities is underscored by the positive coefficient of board involvement and attendance. Directors who actively engage in a company's operations and strategic direction can make well-informed decisions that enhance its financial stability. Pareek et al. (2023) and Lee and Thong (2023) conducted research that underscores the increasing emphasis on board dynamics and their impact on the success of organizations. These studies suggest that boards that engage in supervision responsibilities and hold regular meetings are more adept at anticipating and mitigating risks, thereby safeguarding an organization's financial stability. The financial health of organizations can be significantly influenced by the active involvement of directors and their efficient administration, which ensures that decisions are made with a comprehensive understanding of the company's financial health and strategic objectives.

This study revealed a significant correlation between financial stability, gender diversity, and board independence. The coefficients of the considerable interaction effects suggest that the beneficial effects of board independence and female representation, as well as independence and gender diversity, are exacerbated when these variables are combined. This finding supports the notion that financial stability is best achieved through the implementation of independent and comprehensive governance systems (Guizani and Abdalkrim, 2023; Karim et al., 2023). Independent directors are more resistant to internal political influences and offer diverse perspectives that enhance their ability to supervise management effectively. Incorporating gender diversity into these committees provides them with a broader range of perspectives and experiences, leading to more thorough and equitable decision-making methodologies. Additionally, this study addresses the gap in the current corpus of literature by examining the moderating effect of independence in the African context. Dobija et al. (2022) and Abou-El-Sood (2021) have previously conducted research that has underscored the necessity of conducting additional investigations in this area.

This study provides novel insights into the optimization of governance systems in regions with distinctive economic and regulatory conditions by focusing on the development of African economies. Acknowledging the synergistic and beneficial outcomes that may result from the integration of independence and diversity, this interaction effect emphasizes the necessity to adopt a comprehensive strategy for board composition. This comprehensive strategy ensures that boards are not only diverse in terms of gender but also in terms of independence, which collectively establishes a governance framework that is more adept at addressing financial concerns and promoting stability. This exhaustive perspective on board composition is consistent with the most effective corporate governance methods, and underscores the

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strategic significance of fostering diverse and independent boards to achieve long-term financial success.

3.5 Robustness Testing using Two-Step Difference GMM

Analysis of the robustness test results verified the conclusions of the baseline model. This study confirms the significance of critical factors, including the independent status of the board, the efficacy of the board, the size of the board, and the diversity of board members' genders in influencing financial stability. This confirmed the stability of the primary model. The two-step difference GMM is highly effective in addressing potential endogeneity concerns and in ensuring that the GMM technique mitigates potential biases that may arise from endogeneity, autocorrelation, and omitted variable bias. This method allows for the integration of delayed variables as instruments, which aids in the management of unobserved heterogeneity and potential reverse causality. Employing this methodology ensures that the calculated impacts of board gender diversity and board independence on financial stability are not influenced by any other factor.

To guarantee the reliability and robustness of the regression models, a variety of diagnostic tests were implemented, including the Arellano-Bond test for autocorrelation (AR (1) and AR (2)), the Sargan test, and the Hansen test for instrument validity. The Arellano-Bond test results indicate that the differenced error terms are devoid of autocorrelation. This confirmed that the instruments employed were authentic and that the model parameters were appropriate. The Sargan and Hansen tests serve as additional verification of the validity of the instruments employed in the GMM estimate. These tests suggest that the instruments are exogenous and that over-identifying requirements are not violated. The robustness study involved the evaluation of the stability of the coefficients throughout the application of a variety of model parameters. This confirms the coherence of the anticipated effects of board gender diversity, board independence, board size, and board efficacy across various subgroups and alternative variable definitions. The findings consistently illustrate that these factors significantly influence financial stability, thus bolstering the fundamental conclusions of this investigation.

4. CONCLUSION

This study highlights the importance of gender diversity and board independence in improving the financial stability of non-financial companies in developing African nations. This study found that having a diverse range of genders and independent board members had a significant positive impact on financial stability. This emphasizes the crucial role of inclusive and self-governing organizational structures in corporate governance. This study also fills a significant gap in the literature by examining the African context, which has largely been neglected in previous research. By investigating the connections between gender diversity and board independence in developing markets, this study addresses the unique challenges faced by these markets, owing to their systemic vulnerabilities and low financial resources.

The research methodology’s robustness, which incorporates a two-step dynamic GMM and detailed diagnostic testing, adds strength and validity to the findings. This study’s implications are important for policymakers, regulators, and business executives. This highlights the need to prioritize board diversity and independence to foster financial stability in developing countries. Stronger and more sustainable financial systems can be created by improving

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corporate governance standards. This study also provides a foundation for future research in similar settings, contributing to the field of corporate governance and financial stability.

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