

# CORPORATE BOARDROOM DIVERSITY AND ITS IMPACT ON BUSINESS GROWTH

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## ABSTRACT

*This research paper aims to critically evaluate the role of a diversified boardroom in a corporation. Research has found significant information about both pros and cons of diversity. It is found that Board diversity extends more comprehensive representation in boards that reduce the chances for single groups to look after their vested interest. Further, the research denotes that if an undiversified board of directors manages a company, then the directors have been found to use company resources to extend their business operation in the company's name. However, board diversity denotes that the directors have a different background, socially, educationally, mentally, jurisdiction. In this way, it is not feasible to seek any strong ties for any ulterior motives. Conversely, findings also reveal that diversity causes additional challenges, social cohesion, and different ideologies, which can negatively affect the corporation to make rational decisions timely. Furthermore, the study aims to evaluate the role of diversity in different areas of business such as CSR activities, consumers and customers, employees, shareholders, and stakeholders. Hence, the study aims to comprehensively elaborate country's approach towards diversity, its potential benefits, initiatives, challenges and finally glance over potential recommendations. To this end, the research mainly aims to read UK Corporate governance code 2018, the stewardship code 2020, parker review report, the Company act 2006, and other essential policy papers. The study further aims to read the Norwegian code of practice for corporate governance code 2018, California Assembly Bill No 979, and renowned journal articles to give comparative analysis with the UK approach. Examination reveals that USA and some European countries have adopted compulsory measure for gender diversity. However, UK approach is based on purely voluntary.*

## INTRODUCTION

In the first Chapter, there will be an overview of all chapters such as the nature of boardroom diversity, global approach towards diversity, its potential benefits, challenges, and effective recommendations that should be taken into consideration to embrace different aspects of diversity. Further, this chapter will slightly discuss about significance and challenges of diversity in the UK and other jurisdictions.

Corporate boardroom diversity implies that the boards of corporate entities must be composed of different and diverse background members. It includes gender, age, experience, education, professional background, ethnic and nationality.<sup>1</sup> This fact envisages that diversity does not mean simply looking different or sounding different, but it is about your life experience, education, age, background, and Peer's influence.<sup>2</sup> This wide definition of diversity denotes that diversity is not only confined to a particular appearance or gender-based, but it also comprises distinct characteristics of all fields of life. Furthermore, every aspect of diversity has different but interlinked benefits for the company's performance. For instance, older directors provide sufficient experience, networks and they have the patience to observe in-depth about pros and cons of risk factors.<sup>3</sup> However, young people are supposed to have con-

temporary knowledge, and they are innovative and energetic, which are hallmark attribute to push forward the business in the right direction. So, these all reveal that a diversified workforce is necessary to boost up the business and protect the company from any hostile situation that could affect the business on a large scale. Thus, all aspects of diversity reveals the fact that a good and prosper corporate boardrooms are required to be surrounded by a different background of persons. In this way, the different capacity of people can render their sterling services for the corporation that can improve the overall performance of the corporate body and increase its brand value in the community. It has been recommended by the company law Review steering group that companies should alter board composition to pave the way for broader representation as the necessary requirement to bring any radical change in the corporate business and working mechanism.<sup>4</sup> Diversity in the boardroom is a symbol of workforce motivation and loyalty. Further, it is considered better for the cause of understanding stakeholders' issues and adequately addressing them.<sup>5</sup>

In the UK companies act, directors of a company are required to work for the interests of the employees. Further, they are supposed to foster company's business with stakeholders such as customers, suppliers, etc. It is also stated to act fairly to protect the interests of all employees. So, it is more convenient for a board to observe all the above codes of conduct if the board has members from diverse backgrounds. It is because corporations have a workforce from diverse backgrounds, and if the board members are from diverse background as well, then they are likely supposed to safeguard the interests of the respective national workforce in the best manner. Further, there will be fewer chances of biasedness and discriminatory approach. Besides, the company's customers and suppliers are also deemed to be from different jurisdictions, so it is more feasible for a diverse boardroom to deal with them with the right approach because they can probably understand different markets. In UK, the case for the inclusion of diversity is based on voluntary targets. The corporations frequently failed to meet the prescribed targets. Further, they are not entitled to face any adverse outcome of non-compliance of the given recommendations. However, The United Kingdom voluntary approach towards gender diversity is under intense scrutiny. The country is looking to adopt compulsory measure for this end.<sup>6</sup>

But it is mandatory to adopt statutory legislation to embrace all dimensions to diversity in order to bring a conducive change in this regard. The UK stewardship code envisages motivation for diversity and urges the corporate entities to encourage experience, seniority, training, qualification, and diversity to ensure good corporate governance. But the code is a voluntary code to provide necessary guidelines for corporate entities to work within a prescribed framework. So, it indicates that corporations are self-regulated and can only observe the guidelines of the code. This approach will be briefly discussed later on. Moreover, In Britain, high-profile corporate scandals have been witnessed across the world. These unforgettable scandals of well-reputed companies such as Rolls Royce, Tesco, and BAE system shocked everyone who had trust in British business.<sup>7</sup> In these companies, the management leaders were involved in falsifying accounts for their vested interests. The board failed to take effective measures to prevent these scandals. In order to respond the matter, Series of recommendations have been proposed for future good corporate governance. Among them Cadburg Report and Green Report are appealing and cover a comprehensive list of recommendations. In these reports, it has also been proposed to bring positive culture change in boards in order to minimize chances of such scandals again. For this end, board diversity has been proposed for an effective management change in the boardrooms. It was aimed to hire such directors on board who can fully observe the ethical practices of business and good conduct and be vigilant to discourage any steps that can risk the business. So, it indicates that a diverse board is mostly recommended so they check over one another

initiatives and look at risk factors thoroughly which is very important to minimize any chances of scandals. In UK, the revised UK corporate governance code, which took effect from 1 January 2019, requires improved reporting on diversity. It requires for the nomination committee regarding policy of diversity in the annual report. The new code seems to encourage the companies to set out strategic plans in order to pave the way for more diversity in the boardrooms.<sup>8</sup> One of the primary shortcomings of the present corporate governance code has been observed that the board is given a sufficient role to decide what is appropriate. Instead, they have been providing plenty of discretionary power to fix themselves to find any suitable decision.<sup>9</sup> But nevertheless, there has not been found any impressive change in the corporations. The companies still look reluctant to make effective policies in this regard.<sup>10</sup> Recently, the reports found that 59% companies failed to comply the voluntary targets set by parker report and other recommendations. So, it indicate that however, the new corporate code is a symbol of encourage towards diversity, but the outcome is not appealing and according to the demand. The corporations are apparently indifferent to take effective steps in this regard. The study of the UK corporate governance code shows that there are five references in respect of gender diversity (Bell et al., 2020), however, there is only one reference in regard of ethnic diversity. It shows that there is a lack of serious will to bring improvement in respect of other aspects of diversity in the board level. Further, it is far cry to encourage all aspects of diversity at the management level until or unless concrete actions are taken. In respect of ethnic diversity, Baroness McGregor Smith has observed the parker review recommendations and stated that ethnic and minority group people face discrimination and biasedness from the very beginning of their recruitment. They are not given the opportunity to go forward to the management group. It is further observed that they are unlikely to be promoted and they are judged harshly as well. So, it is unlikely to witness any effective changes unless or until there is a change of policies in respect of conduct and law. Hence, the UK approach towards the inclusion of diversity will be comprehensively discussed (Castellanos & George, 2020). All the initiatives, outcomes and challenges will be highlighted to envisage a clear image of the UK policy for this end.

## GLOBAL APPROACH TOWARDS INCLUSION OF DIVERSITY

An overview of diversity, progress, benefits, and challenges has been glanced over in the previous chapter. In this Chapter, the global approach towards diversity will be discussed briefly. First, the Europe approach will be critically highlighted. Afterwards, the UK approach will be comprehensively discussed, and analysis will do with other jurisdictions. The UK company act, the corporate governance code and the stewardship code will be briefly discussed. Some reports such as the parker review is also part of this chapter to glance over the recommendations and statistics of present scenario (Vairavan & Zhang, 2020). Finally, initiatives and outcome will be discussed as well to have an explicit view of the present situation (Fernandez et al., 2019).

The world has paid great attention to paving the way for more diversity in top positions of corporate sectors. However, the matter has been dealt differently from jurisdiction to jurisdiction. The findings are evidence that all aspects of diversity have not been focused equally. But the research envisages that gender diversity has been much discussed and seen encouragement, followed by ethnic diversity.<sup>11</sup>

### European approach

European approach is studied to done comparative analysis. It has been considered significant for this study to give an overview about the European countries approach towards the inclusion of diversity and its impact on their business sectors growth. According to the European Institute for Gender Equality, in 2018, women represented around 26% of the largest companies registered in the EU at the board level. However, only in five countries, such as France, Italy, Sweden, Finland, and Germany, women were more than third, approximately 33%. It is evident from the research to pinpoint that some Countries have adopted quota systems to recognize women's diversity in the corporate boardrooms. For instance, Norway has adopted 40% quota for women representation in the boardrooms.<sup>12</sup> Moreover, Norway has an impressive quota system for gender diversity in the corporate boardroom. The Norway model in respect of gender diversity is encouraging because the non-compliance of the law is followed by penal outcomes which can deter the companies when they failed to observe the rule strictly.<sup>13</sup> The EU has also passed similar legislation with a 40% goal by 2020. Conversely, In Poland, the culture is a masculine one. It is hard nut to crack for women to reach a senior position. Moreover, the law of the country is also weak to promote gender diversity (Fernandez et al., 2019). It has been observed there is gender disparity at the board level in the EU. But the countries have shown good progress with binding measures. However, corporations with self-regulatory standards have not yielded any noticeable change.<sup>14</sup> The reason is that they are not bound to comply the prescribed guidelines. Because they are entitled to face any penal outcome on non-compliance (Castellanos & George, 2020). It is stated that gender equality is not only necessary on the ground of human rights. It should be encouraged based on the social and economic necessity of the European Union as well. It has been recommended that EU members elevate gender diversity with binding measures to see any progressive change in this regard. So, the companies are not able to pave the way for promoting gender diversity. They cannot utilize the advantages of board diversity. So, it is evident from all the above initiatives and facts that embracing diversity in boards differs from jurisdiction to jurisdiction. Norway model, on the other hand, is ready to impose sanctions against noncompliers. These Norwegians measures turned to be effective.

## UK approach

As far as the approach of UK is concerned, it has been noted that in UK inclusion of diversity has been improved over the past 40 years and it is expected to be continued. Further, it is observed that the UK will be the most diverse country of western Europe by 2051. It is because migration will be continued and there is expected of high level migration from USA, Europe and Australia (Grosvold et al., 2007). So it requires to encourage diversity at the board level as well as executive in order to retain best talent for the prosperity of the company's business in the long term. In UK, Studies found that now there is strategy to increase gender diversity to 40% in senior positions to pave the way for more progress in this regard. However, It is crucial to figure out that the current percentage of women in executive role is only approximately 13.2%. Most importantly, it is worthwhile to disclose the fact that the approach of gender diversity is purely voluntary in the Britain. In Wales, the public sectors increase boardroom diversity on the basis of targets set by them. The statistics show that some Wales corporate sectors have achieved gender balance by setting voluntary targets (Terjesen et al., 2016). It has also been observed that excellent outcomes have been witnessed if the corporate sectors were serious to bring impressive change for inclusion of more diversity in boardrooms. However, but little progress with those sectors who were unwilling to do so. It is evident from the practice that there is only evidence increasing board- level

diversity on the ground of voluntary measures. However, there is no uniform approach for improvement for this desired level.

## INITIATIVES AND OUTCOMES

### United States of America

It is explicit to allege that diversity counters biased approaches and discrimination. It conveys a strong message of unification and fraternity worldwide. Countries like the UK and USA have diverse and multi culture people, so it is hallmark to ensure that everyone has the equal opportunity to render their sterling services (Reddy & Jadhav, 2019). In 1972, the United States of America has passed the Equal Employment opportunity act to ensure equality and fairness in the workplace. But nevertheless, mostly white people in America head corporations. In the USA, California has passed a bill that requires public companies to have at least one board member from underrepresented communities. The law stated that under representative communities could be from African American, Asian, Latino, Native American. Even it states that the under presented communities could extend to the community who identifies themselves as gay, lesbian or transgender.<sup>15</sup> The California law has imposed severe punishment for public corporations that failed to comply the law. It stated that the companies that failed to hire diverse members could face a fine \$ 100000, and can extend it for further violation (Beji et al., 2021). Further, the survey of 2019 indicates that around 90% of the top executive's position were covered by white. From the survey, it has come into light that around 662 public companies are operating in California state. However, 233 of these listed companies have only whiteboards of directors which is very discouraging and represent mono-ethnic culture. So, it is evident from these facts that countries like the USA which has multicultural society but the positions at the top level of corporate entities are held by white people which is a sham and degrading factor for the multi-culture society (Sjafjell, 2015). So, from the above discussion it is found that Countries like the USA are known for its multi culture and immigrants from worldwide. Nevertheless, statistics imply that white people in a significant number occupy key positions in corporations. However, the California bill is a good step to urge corporations to embrace all dimensions of diversity, particularly women, in the boardroom but nevertheless, there need more concrete steps in this regard.

### United Kingdom initiatives

As far as initiatives in the UK is concerned, compared to ethnic diversity, female representation is many folds in advance. The final report of Parker reveals that only 2 percent of directors in FTSE boardrooms are from ethnic minority background which is not convincing at all. The report further shows that 53 out of FTSE 100 did not have any directors of ethnic side at all. It indicates that ethnic diversity has been underrated over the time. Further, it is important to figure out that 14 percent of the UK population is from a non-white ethnic group, so it is hallmark to give the non-white ethnic group true representative on the corporate boardroom based on talent so they can provide remarkable contribution for the growth of business (Kagzi & Guha, 2018). Many recommendations have been witnessed in order to increase different characteristics of diversity in the boardroom. In this regard, Davies Review and Hampton Alexander review have adopted phenomenal changes to increase women quota by approximately 33% in order to bring effective reforms in the boardrooms for a positive change in the economy as well as the society. This report has found satisfactory response in respect of the inclusion of gender diversity in boards. All the targets which were set previous-

ly have been found fulfilled by this report. In this report, it has been acknowledged that all 350 FTSE boards have included more than 30% females in the respective boardrooms, which is a remarkable outcome. This report cherishes the outstanding positive results which were set on voluntary basis. However, the report has found that women presence at the executive level is not appealing and satisfactory (Grosvold et al., 2007). Because they are not promoted to the executive level because of insufficient skills and experience. However, it has been observed that competency must not be the only criteria for gender parity in boardrooms. The most critical part is confidence, and that comes through experience and with age.<sup>16</sup> But nevertheless, apart from confidence, competency is very important to prove oneself worthwhile for positions like executive level. It is not feasible for corporations to appoint women on executive level only based on experience and age. It is important to know whether the applicant have the required capability to hold the position. Further, In this regard, the report has proposed some recommendations to improve the situation. It urges that women representation at the board level should be increased to 40% in the next three years (Dishman, 2015). It recommended that one woman should be at the CEO level, and there should be sanctions against the corporate sectors for non-compliance.<sup>17</sup> In 2020, the reports of 350 FTSE companies show that 59% companies have been failed to comply the formula set by parker review of having at least one ethnic director in the boardroom. It deems to be a serious setback for the progress of the corporate entities. It has also been highly suggested that the nominations committee are also required to be comprised of diverse backgrounds members so they can devise strategic plans for inclusion and recruitment of diverse members in the boardroom.<sup>18</sup> In this way, the nominations committee become not biased and adopt the fairness approach to recruit boardroom members from diverse backgrounds. Further, the reports also recommended that the nomination committees must show strenuous efforts for the inclusion of diverse members and regularly report about the progress. It is stated that only 7% has been recruited as director from ethnic side. However, this number has been increased to 12% in 2021. So, ethnic diversity in UK FTSE 100 board is not sufficient. The ethnic and black minority only representing around 5% which is not impressive at all. Therefore, the 350 UK FTSE companies are highly required to adopt explicit targets for both board and executive levels (Mkheimer, 2018). But it is important to figure out that this report is based on mere recommendation and there is no mandatory statutory requirement to be complied (Beji et al., 2021). This recommendation was made to bring impressive change regarding inclusion of diversity policy. It is further stated in the report that the nomination committees should adopt effective mechanisms to find out the appropriate candidate from the ethnic side. They are required to devise strategic plans to make the plan successful. The parker view report urges that the mechanism which are adopted for the recruitment of gender, they should also be adopted for hiring members from ethnic background (Vairavan & Zhang, 2020). It is also one of the important and effective recommendation of parker review for the companies members from FTSE100 and 250 FTSE to identify and find candidates from within the organization to be considered for the board members from ethnic side. Even the parker review stated that if the companies fail to include board members from ethnic background should give justifications about the failure and non-compliance of the target. The report further reveals that an examination of 100 FTSE companies discloses very disappointing progress in respect of ethnic diversity at the board level. Most importantly, 51 of the FTSE 100 companies even have no ethnic background directors at all. It is stated that only six people of ethnic background hold position of CEO. Further it brings into light that only seven companies comprise 40% of directors of ethnic side.

### **FTSE 350 Companies Towards Inclusion of Diversity**

But In 2020, it has been observed that approximately 59% of FTSE 350 companies failed to meet the criteria of parker review of having atleast one director from ethic minority background which is deems to be a serious setback for no progress in this regard. One of the main reasons is that these reports are mere recommendations and they do not touch binding measures. Further, corporations are entitled to self- regulate its affair based on interest. So, there are important challenges that are barriers to comply any voluntary recommendations. It is stated that the current UK ethnic population is 14% and that is probably to increase to 30% by 2030. So, it is imperative that the UK companies are highly requires to include more ethnic background board members in order to learn from their diverse experience and talent as well. It has been observed that majority of the UK companies have adopted policies in respect of corporate boardroom diversity, but their reporting mechanism is not according to the prescribed standard. It is imperative for them to improve their reporting methods to show credible and concrete actions that have been taken for more inclusion of diversity. It is because reporting methods somehow indicates that the corporations is looking for strenuous efforts for the cause. It is a source of motivation for other corporations to comply on such guidelines (Sjafjell, 2015). Gradually, it can show improvement and impressive results. The research further shows that only 15% of the UK FTSE 100 companies have complied the standard of reporting prescribed in the revised UK corporate governance code. In this way, all steps will be comprehensively written that can envisages a corporation's arduous efforts for embracing diversity policy (Beji et al., 2021). Therefore, it is convenient to mention that impressive initiatives and outcomes have been acknowledged regarding the progress of gender diversity at the board level. On the other hand, ethnic diversity has also been discussed comprehensively and the parker view urges the companies to acknowledge the fact that ethnic diversity is crucial for a good corporate governance structure, but the practice indicates that the corporations are not unwilling to accept the pros of ethnic diversity for the prosperity of corporate business in manifold ways. It is vital because different ethnicity can understand different consumers, customers and market. They can play their pivotal role for extending network and business of the corporation.

## CONCLUSION

Hence, the global approach is different from jurisdiction to jurisdiction. In the UK, the corporate governance code 2018, the stewardship code 2020 emphasizes voluntary practice to include diversity. The corporations are encouraged to devise effective processes and strategic plans for this end. However, they are not subject to any compulsory measure. They are exempted from any negative outcome on non-compliance. The corporations are given self-regulatory power to plan accordingly to their aim. However, there are many recommendations, such as the parker review report, the McGregor smith review, and the Hampton-Alexander review, but these are mere recommendations that encourage boardroom diversity. Conversely, Norway and California's approach indicates that corporations are stressed to adopt a compulsory measure for gender diversity. In the next chapter, the potential benefits of diversity will be briefly discussed.

## END NOTES

<sup>1</sup>The UK revised Code of Corporate governance 2018, Principle J.

<sup>2</sup>Nadine Exter, 'A workforce that reflects our diverse society' *The Guardian* (London, 14 Dec 2015) 4.

<sup>3</sup>Chih- Shu Hsu, Wei-hung Lai and Sin-hui Yen, 'Boardroom Diversity and operating performance: The Moderating effect of Strategic Change' (2018) 55(11) *Emerging Markets Finance and Trade* 1.

- <sup>4</sup>Andrew Keay, 'The Ultimate objective of the company and the enforcement of the entity maximisation and sustainability model' (2010) 10 (1) JCLS 51.
- <sup>5</sup>Leanne Fuith, 'Achieving Diversity on Corporate boards: Engagement and Education; Not legislation' (2019) 45 *Sua Sponte* 125.
- <sup>6</sup>Lawrence J. Trautman, 'Corporate Boardroom Diversity: Why are we still talking about this?' (2015) 17(2) *Scholar* 257.
- <sup>7</sup>Business, Energy and Industrial Strategy committee, *corporate governance fourth Report* (HC 2016-17,702) 12.
- <sup>8</sup>Financial Reporting Council, 'Research shows that more companies should treat diversity as part of business strategy' (2018) 39(12) *Comp. Law* 412.
- <sup>9</sup>Andrew Keay, 'Comply or explain in Corporate governance codes: in need of greater regulatory oversight?' (2014) 34(2) *Legal Studies* 291.
- <sup>10</sup>Financial Reporting Council, 'Board Diversity and Effectiveness in FTSE 350 companies' 20 July 2021, 5.
- <sup>11</sup>The Parker Review Committee, *A report into the Ethnic Diversity of the UK Boards* (2017), 7.
- <sup>12</sup>Saleh F.A. Khatib, Dewi Fariha Abdullah and Ahmed A. Elamer, 'Nudging toward diversity in the boardroom: A systematic literature review of board diversity of financial institutions' (2020) 30(2) *Business Strategy and the Environment* 4.
- <sup>13</sup>Llywodraeth cymru welsh Government, 'Increasing the representation of women and other under-represented groups on public sector Boards' (January 2016) 7.
- <sup>14</sup>European commission, Proposal for a Directive on improving the gender balance among non-executive directors of companies listed on stock exchanges and related measures, COM/2012/0614 final - 2012/0299 (COD).
- <sup>15</sup>David A. Bell, Dawn Belt and Jennifer, 'New law requires diversity on boards of California based companies' (2020) *Harvard Law School forum on corporate governance* 1.
- <sup>16</sup>Leanne Fuith, 'Achieving Diversity on Corporate boards: Engagement and Education; Not legislation' (2019) 45 *Sua Sponte* 134.
- <sup>17</sup>Hampton- Alexander Review, 'FTSE women leaders improving gender balance in FTSE leadership' (February 2021).
- <sup>18</sup>The Parker Review Committee, *A report into the Ethnic Diversity of the UK Boards* (2017), 24.

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