UNIVERSITY OF PORTSMOUTH

Board Diversity, Earnings Management and Firm Performance: The Case of Kuwait

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The thesis is submitted in partial fulfilment of the requirements for the award of the degree of Doctor of Philosophy in Accounting and Financial Management at the University of Portsmouth

Faculty of Business and Law
University of Portsmouth

October 2019

Scientific Productions of Thesis

Published Article

- Alqatan, A. (2019). The association between board diversity, earnings management and firm performance in Kuwait: A research agenda. *Corporate Governance: Search for the Advanced Practices Rome*, February 28, 2019. doi.org/10.22495/cocv16i1

Articles under review

- Alqatan, A. (2019). Would gender, age and national diversity on board effect on earnings management in Kuwait? Journal of Business Ethics.

Prizes:

- The best poster award by 15th Research and Innovation Conference at University of Portsmouth, 2019 (value £250).

- A certificate from 15th Research and Innovation Conference at University of Portsmouth, 2019 for being a PhD student who received external fund to attend American Accounting Association (AAA).

- The best paper award on "Would gender, age and national diversity affect on earnings management in Kuwait, at Financial Economics Meeting: Post-crisis challenge hold in Hammamet, Tunisia 21-22 December 2019.

Funds:

- Part Funded from University of Portsmouth to attend EEA conference, 2018 by £450.
- Full funded to attend a conference in Canada, including Canadian Visa, $ 1000 tickets, 3 nights conference hotel, $45 per day, and $250 registration fees, organised by American Accounting Association (AAA).
- Part funded from University of Portsmouth to attend workshop in Panel Data Linear Analysis in Barcelona, Spain by £450.
- Full Fund from Kuwait Foundation for the Advancement of Sciences, Kuwait, for my paper in "The Association between Board diversity and earnings management, beside firm performance" by $4000.
- Fund for any doctoral workshop and conference from Damirli Garments, Accessories and Gifts Company, Kuwait by $10000.
- Partly funds from the BAFA Corporate Finance and Asset Pricing Conference, to be held on 11-12 September 2019 in Manchester by £60.
- Part Funded from University of Portsmouth to attend the BAFA Corporate Finance and Asset Pricing Conference, 11-12 September 2019 in Manchester by £100.
- Full fund by APMAA 2019's Ph.D. Colloquium and Main Conference at Qatar University. Covered Air ticket (economy class – Arrival to Qatar 1st November; departure will be on 6th November). Accommodation at Qatar University residence (maximum of 5 nights from 1st November to 5th November). Two Meals/day and Internal Transportation in Qatar.
- Partly funded from AAA to attend the IAS PhD/New Faculty Consortium and the 2020 Joint Midyear Meeting of the AIS, SET and International Sections will be held in Orlando, Florida, at the Rosen Center on January 23-25, 2020, and 2 nights at the conference hotel by $750.

Conferences:

- Ethics and Integrity Conference on 4 April 2018 at the University of Kent.
- PhD Doctoral conference in 10 & 11 of April 2018 at the University of Southampton. (Presenter).
- Workshop on Writing Quantitative Research Papers: Accounting in Emerging Economies in 10 & 11 of May 2018 at the University of Southampton. (Presenter).
- 24th SPRU PhD Forum in 17th & 18th May 2018, at the University of Sussex.
- 41st EAA Annual Congress Milan, Italy – 30 May to 1 June 2018.
- British Academy of Management: Corporate Governance subject Interest Group Conference University of Leeds, Leeds, UK – 11 & 12 June 2018. (Presenter).
- Accounting and Accountability Research Group: PhD Scholars conference 2018, Queen Mary University of London on 19 June 2018.
- 5th Annual Corporate Governance Conference, 6-7 December 2018, Frankfurt, Germany.
- International conference "Corporate governance: search for the advanced practices", Rome, Italy; Feb 28, 2019. (Presenter).
- BAFA Conference, 8-10 April 2019 at the University of Birmingham, UK. (Presenter).
- AARG PhD Scholars Conference, Queen Mary University of London on 10 of June 2019.
- The Faculty of Business and law (BAL) Postgraduate Research Student Conference, University of Portsmouth on 17th June 2019 (Presenter).
- 8th Brunel Accounting Symposium at Brunel University London on 19th June 2019.
- The 7th International Conference of the Journal of International Accounting Research (JIAR), 27-29 June 2019 in University of Quebec at Chicoutimi (UQAC), Canada. (Presenter) full funded by the Journal of International Accounting Research (JIAR).

Program organiser by American Accounting Association (AAA), and International Accounting Section.

- Conference on Teaching & Learning in Accounting, by American Accounting Association (AAA) in San Francisco, CA, US. From 10 to 11 of August 2019.
- Annual meeting 2019 of American Accounting Association (AAA) in San Francisco, CA, US. From 12 to 14 August 2019. (Discussant).
- the BAFA Corporate Finance and Asset Pricing Conference, to be held on 11-12 September 2019 in Manchester. (Presenter).
- Contemporary Research in Accounting, Finance and Taxation (CRAFT 2019), from October 28th to 29th, 2019 at Hammamet, Tunisia. (Presenter).
- Asia-Pacific Management Accounting Association (APMAA), PhD Colloquium and Classes from 2th to 5th Nov 2019. (Presenter in "Would board diversity effect on earnings management and firm performance in Kuwait?").
- Asia-Pacific Management Accounting Association (APMAA), Main Conference from 2th to 5th Nov 2019. (Presenter in "Does royal directors' matter for decreasing earnings management in Gulf Cooperation Council countries?").
- Asia-Pacific Management Accounting Association (APMAA), Main Conference from 2th to 5th Nov 2019. (co-author in "IFRS Adoption and Earnings management: The Role of Board of directors: Evidence from China").
- The EAA Talent Workshop. on November 8-9 at IE University –Madrid Campus. (Presenter).
- Accounting PhD Rookie Recruiting and Research Camp by AAA. December 6-8, 2019, Miami Marriott Biscayne Bay, Miami Florida. (Presenter).
- Financial Economics Meeting: Post-crisis challenge hold in Hammamet, Tunisia 21-22 December 2019. (board diversity & earnings management, Presenter).
- Financial Economics Meeting: Post-crisis challenge hold in Hammamet, Tunisia 21-22 December 2019. (board diversity & firm performance, Presenter).

- AAA to attend the IAS PhD/New Faculty Consortium and the 2020 Joint Midyear Meeting of the AIS, SET and International Sections will be held in Orlando, Florida, at the Rosen Centre on January 23-25, 2020 (Menitor, Discussant).

Declaration

‘Whilst registered as a candidate for the above degree, I have not been registered for any other research award. The results and conclusions embodied in this thesis are the work of the named candidate and have not been submitted for any other academic award.’

Ahmad Alqatan
Date: 02/10/2019

Dedicated To

Beloved Kuwait;

My mother and father;

Brothers and sisters;

My wife and my son Jassim

Acknowledgment

First of all, thank for Allah for bestowing me strong till the end. Also, from the bottom of my heart, I would like to show my sincere thankfulness to my supervisors for their knowledge and help during the stages of my thesis.

Particularly, I would like to thank both of my supervisors Dr Imad Chbib and Professor Khaled Hussainey for their considerate comments and recommendations on this thesis from the beginning until the end, their advice from according to their experience helped me a lot also for their continuous encouragement and support.

Special thanks for the external examiner Professor Aly Salama (Northumbria University), for his time, effort and valuable feedback on my thesis, which improved the quality of my final version.

I am also grateful to the Faculty of Business and Law and all its staff members for all the thoughtful guidance, especially Accounting and Financial Management Group. Moreover, I would like to thank Professor Lisa Jack for her review and the feedback. Also, thanks for all seminar speakers who presented at the seminars organised by Accounting and Financial Management Group for their ideas, comments and pieces of advice. Also, I want to thank Dr Awad Ibrahim for his advices. In addition, I would like to thank Sara Al Faihani for her support and advice.

Further, I cannot forget to thank my lovely wife and son for their patience during my studies and staying up too late every day from the first day of my PhD journey. Moreover, thank you

for my mother, father, brothers and sisters for their encouragement and support, along with my friends for the unconditional support that they showed in this very intense period of my life.

Also, I would thank all the universities and organisation that I attend or present at their conferences, especially Professor Collins Ntim from the University of Southampton that from his advice I changed my thesis direction in a right way, also European Accounting Association, British Accounting & Finance Association and American Accounting Association for their reviews. Also, many thanks for Dr Alaa Zalata and Professor Badi Baltagi for their advice regarding my data analysis. I want to thank the Minister of Commerce and Industry in Kuwait Mr Khaled Naser Al Roudan and the manager of listed companies Mrs Raqia Al Radhan for their kindness and giving me the access to the data that I required for my thesis. Moreover, I would thank all the organisations and universities those fund my research activities such as the University of Portsmouth, American Accounting Association (AAA), British Accounting & Finance Association (BAFA), Kuwait Foundation for the Advancement of Sciences, Damirli Garments, Accessories and Gifts Company and University of Qatar. Finally, I am sorry if I forgot to thank anyone who encourage, support or advise me during my PhD journey.

Abstract

This thesis aims to examine the consequences of board diversity in Kuwait. The objectives are to measure the impact of gender, age, national diversity on earnings management (EM), besides firm performance (FP). This research study raises the following question: Does board diversity affect earnings management and firm performance?

This thesis uses data from 103 non-financial Kuwaiti listed companies in the period from 2010 to 2017. The data was collected from secondary sources such as annual reports and S&P Capital IQ. The data analysis methods are correlation and multi-regression. Earnings management measured by using the model modified by Jones (1995) and Kothari et al. (2005). Firm performance measured by ROA, ROE and Tobin's Q. The independent variables are gender diversity, age diversity, nationality diversity. The findings show that there is no association between gender diversity and earnings management. Also, this study found a positive relationship between age diversity and earnings management, besides no relationship found between national diversity and earnings management. Moreover, the findings show a mix of results between gender, age, national diversity and firm performance, which is contrary to agency, resource dependency and social capital theories.

Keywords: Earnings management, firm performance, board diversity, corporate governance code, Kuwait

List of abbreviations and acronyms

EM: Earnings Management
FP: Firm Performance
CG: Corporate Governance
KCGC: Kuwait Corporate Governance Code
GCC: Gulf Cooperation Council
GD: Gender Diversity
BOD: Board of Directors
AD: Age Diversity
ND: National Diversity
ROA: Return on Assets
ROE: Return on Equity
TQ: Tobin's Q

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1.0 Chapter One: Introduction

1.1 Background

Due to the recent prevalence of issues of discrimination based on minority status and age in the workforce (The Public Authority for Civil Information, 2019), there have been changes in the pool of potential candidates for positions on firms' boards of directors (BODs). The diversification of these top tier positions necessitates more in-depth research in order to establish if diversity affects firm performance (FP), or if such positions are only filled so that firms can demonstrate equality and a lack of discrimination (Erhardt, Werbel, & Shrader, 2003; Guest, 2019; Jafaar et al., 2019). There is a need to examine the impact of board diversity (BD) on earnings management (EM) while additionally gaining insights into how this affects FP in Kuwait.

The members of BODs must display strategic decision making. This may lead to the assumption that firms with more diverse BODs experience higher levels of FP than less diverse boards. However, it is unclear whether BD is the sole contributor to this increased performance (Erhardt et al., 2003). The principles enshrined in corporate governance codes (CGCs) control directors' behaviours and the size of boards as well as the independence of their members. These are the main variables that affect EM (Abed et al., 2012; García-Meca & Sánchez-Ballesta, 2009). However, these studies neither take into account nor consider the role of BD as a variable affecting EM.

1.2 Research aim and objectives

The aim of this study is to examine the consequences of BD in the form of gender (GD), age (AD) and nationality (ND) on EM and FP.

In order to achieve this aim, the objectives are as follows:

- To examine the impact of board diversity on EM.
- To examine the impact of board diversity on FP.

1.3 Research questions

This research investigates the effect of board diversity, in the form of gender, age and national diversity, on the levels of EM and FP of non-financial firms listed on Boursa Kuwait. Consequently, this study seeks to answer the following questions:

- Does board diversity affect EM?
- Does board diversity affect FP?

This thesis studies non-financial firms listed on Boursa Kuwait (further details can be found in section 5.3). In order to answer the first and second questions (for additional details, see Figure 1), this study uses the modified Jones and Kothari models to measure EM and different types of FP in order to confirm the results and to strengthen the findings.

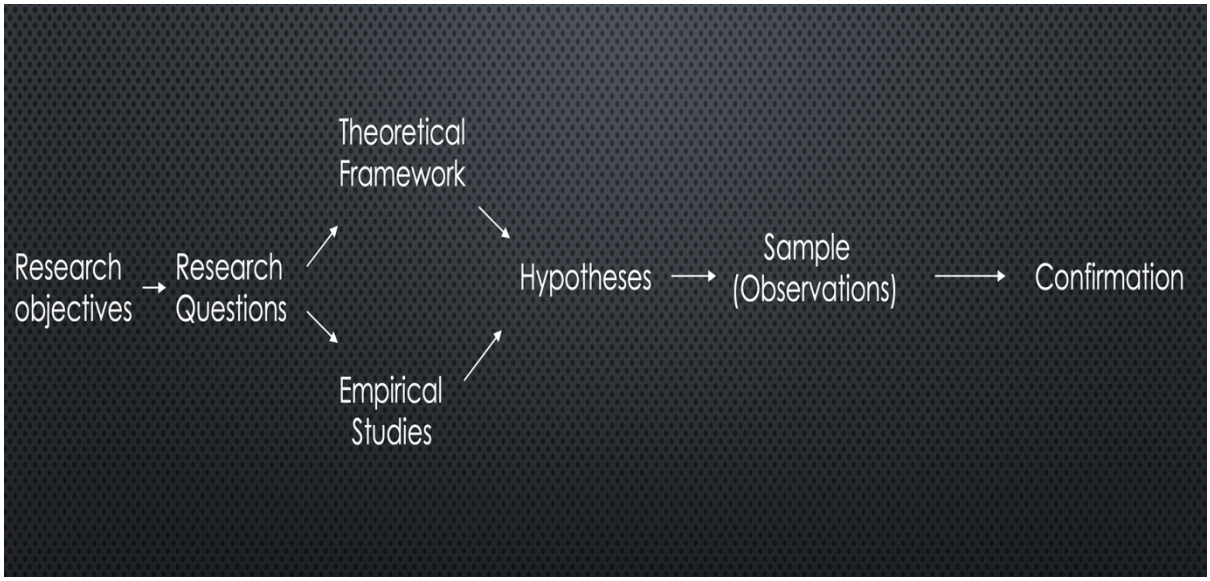

Figure 1: Diagram linking the research objectives and the questions used in the research process

1.4 The study method

In order to achieve its aim and objectives, this study conducts ordinary least squares (OLS), random effects, generalised method of moments (GMM), 2 stage least squares (2SLS) and Tobit analyses. More specifically, it uses OLS assumptions and random effects regression analysis to solve both autocorrelation and heteroscedasticity (Arellano, 2003; Gujarati & Porter, 2009). The study uses GMM and 2SLS for FP models to address endogeneity problems (see section 5.7). Moreover, it uses Tobit regression for EM, because the dependent variable is limited, meaning that the modified Jones and Kothari models are non-negative variables (Jia et al., 2012; Lin & Luan, 2020; Xiao et al., 2014).

1.5 Motivation

From the literature review, it is apparent that many research studies have considered the impact of corporate governance codes on firms in different countries. Even though Kuwait was the first of the Gulf Cooperation Council (GCC) countries to have a stock market exchange, namely Boursa Kuwait, it was the last (in 2013) to implement a corporate governance code.

Although Al-Saidi and Al-Shammari (2014) examined Kuwait's non-financial firms before the Kuwait corporate governance code (KCGC) was implemented, the Kuwaiti literature shows that the last investigation into BD was conducted in 2011. Consequently, this study updates the Kuwaiti literature following the KCGC's implementation.

Previous research studies by Adams and Ferreira (2009), Carter et al. (2007), Erhardt et al. (2003), Gordini and Rancati (2017), Gull, Nekhili, Nagati and Chtioui (2018), Peni and Vahamaa (2010) and Rose (2007) have investigated the impact of BD on EM and FP. However, few studies have focused on Kuwait, especially since the KCGC was implemented. Furthermore, very few research studies (Carter, Simkins, & Simpson, 2003; Lausten, 2002; Musyoka et al., 2015; Nyoka, 2018) have studied age diversity and earnings management and none have examined this relationship or measured age diversity in Kuwait. Moreover, they have used several means to measure EM and FP. As a developing country, Kuwait's empirical studies are limited in terms of the significance of BD, EM and FP. In comparison to previous studies, such as those by Carter et al. (2003), Goodstein et al. (1994), Harjoto et al. (2015) and Stephenson (2004), the present research seeks to establish whether or not BD is important to Kuwaiti firms. Furthermore, other countries, such as the United Kingdom (UK), the United States of America (USA), Canada, France, Spain, the Netherlands, Finland, Sweden, South Korea, Malaysia, India, Iraq, Palestine, Bangladesh and Nigeria claim that there is a need for more diverse BODs to improve decision making and FP (Goodstein et al., 1994; Neill et al., 1995; Stephenson, 2004; Campbell & Minguez Vera, 2010; Kumai & Bala, 2013; Luckerath-Rovers, 2013; Ittonen, Vahamaa, & Vahamaa, 2013; Alareeni & Aljuaidi, 2014; Harjoto et al., 2015; Abdullah & Ismail, 2017; Gull et al., 2018; Jadiyappa et al., 2019). As shown in Figure 2, Kuwait has achieved greater BD in recent years and with respect to the country's population,

there are now more women, young people and non-Kuwaiti citizens than men, older people and Kuwaiti citizens on the boards (Central Statistical Bureau, 2020).

Kuwait has been chosen for this study because the country has a distinctive democratic policy. Kuwait is the most democratic GCC country; in 2017, when its democracy was last tested, it was ranked 119th globally (The Economist Intelligence Unit, 2017). In 1962, Kuwait became the first GCC country to have a Constitution (Cordesman, 2018). The Kuwaiti Constitution is the foundation of the state's laws applicable to the country and its citizens (National Assembly, 2015). Furthermore, in 1963 Kuwait became the first GCC country to establish a National Assembly, only being followed by Bahrain in 2002 (Cordesman, 2018). Then, in 2009, Kuwait became the first GCC country to admit Kuwaiti women into its Parliament (National Assembly, 2015; Odine, 2013). In terms of gender, Kuwait's population is 51% female and 49% male (The Public Authority for Civil Information, 2019). Consequently, this study's motivation is to investigate whether gender diversity affects Kuwaiti non-financial firms' EM and FP. The Kuwait National Assembly, which is the country's legislative authority, consists of 50 members elected by the Kuwaiti people. One of the National Assembly's essential tasks is to study ministerial decisions (Herb, 2002). In comparison to other GCC countries, Kuwait has an open economy because all investors can seek entry to the country's stock market, which discloses all the firms listed on Boursa Kuwait (Alotaibi, 2014; Al-Shammari and Al-Sultan, 2010). In addition, at the beginning of 2017, the Kuwaiti Government announced its vision for a 'New Kuwait' by 2035, with the aim of transforming the country into a regional commercial, financial and cultural centre, attracting investments from people of different nationalities (New Kuwait, 2020). Seventy per cent of the Kuwaiti population comprises non-Kuwaiti citizens (The Public Authority for Civil Information, 2019 and Figure 2), motivating this study to examine the effect of ND on non-financial firms' EM and FP. According to the Public

Authority for Civil Information (2019), 81% of the Kuwaiti population is under 48 years age old and 19% are older people. Accordingly, Figure 2 shows the growing number of young directors on boards. Furthermore, in 1977, Kuwait became the first GCC country to establish a stock market, known as Boursa Kuwait. The Kingdom of Saudi Arabia, Oman, Bahrain and the United Arabic Emirates (UAE) followed suit in 1980, while Qatar did so in 1990 (Cheikh et al., 2018). Conversely, in March 2013, Kuwait was the last GCC country to implement the KCGC, which came into force in June of the same year (Capital Markets Authority, 2013). Following the implementation of the KCGC, there were some changes to firms' BD, including greater numbers of women, young people and foreign directors.

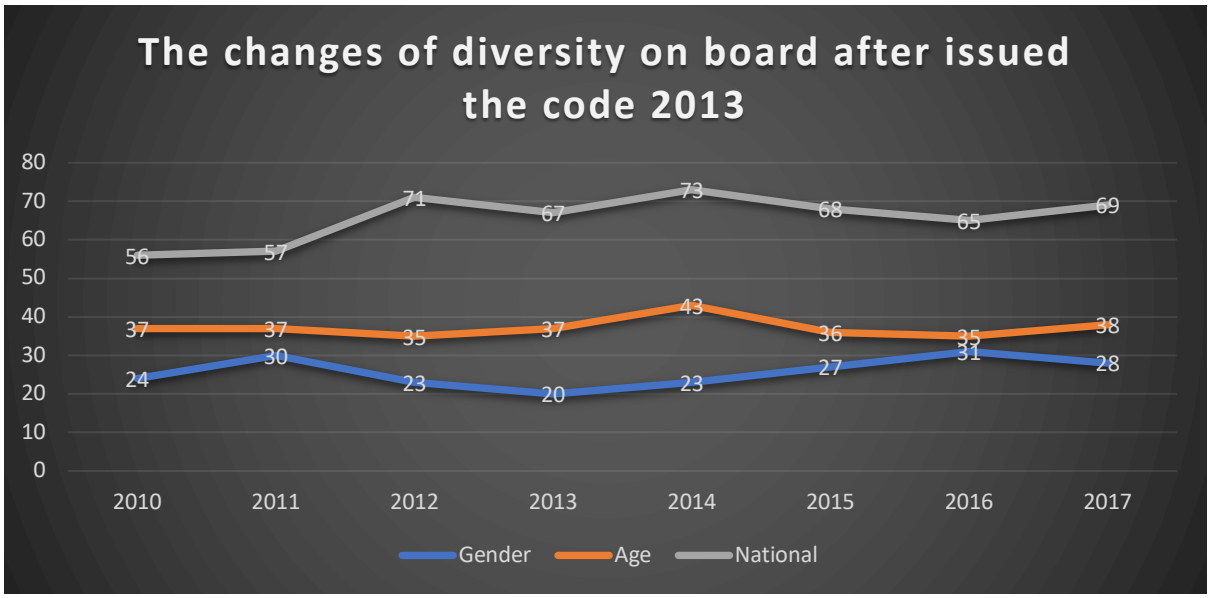

Figure 2: Changes to board diversity after the 2013 code was issued

Source: Annual report, The Public Authority for Civil Information (2019)

1.6 Research contributions

This study contributes to the growing body of literature on BD by investigating its effect on EM and FP. Further, this study builds on the broader literature on gender, age and national diversity by highlighting the important role that women, young people and foreign directors play in improving boards' monitoring role on EM and FP. More specifically, this study first contributes to existing knowledge; second provides a theoretical contribution; and third makes a methodological contribution.

Although some previous studies have examined the impact of GD, AD and ND on EM and FP, they have mainly focused on developed countries (Adams and Ferreira, 2009; Carter et al., 2003, 2007; Erhardt et al., 2003; Gordini and Rancati, 2017; Gull et al., 2018; Lausten, 2002; Musyoka et al., 2015; Nyoka, 2018; Peni and Vahamaa, 2010; Rose 2007). This study is one of the first to analyse the impact of GD, AD and ND on EM and FP in the Kuwaiti context. In addition, to date few empirical studies have examined the effect of AD on EM and used different measures to confirm their results.

As shown in Figure 6 and Table 1, this study makes another significant contribution in its use of agency and resource dependence and social capital theories to develop its hypotheses. Many studies (e.g. Abdullah, Ismail, & Izah, 2017; Arioglu, 2018; Choi & Rainey, 2010; Darmadi, 2011; Gull et al., 2018; Johnson, Schnatterly, & Hill, 2013; Jurkus et al., 2011; Kim & Lim, 2010; Low, Roberts, & Whiting, 2015; Lückerath-Rovers, 2013) have used such theories to develop their hypotheses. However, none use social capital theory to examine the impact of BD on FP and EM in Kuwait.

Finally, in relation to the methodology, most previous studies (e.g. Adams & Ferreira, 2009; Alshamari & Alsaidi, 2014; Campbell & Minguez-Vera, 2008; Carter et al., 2010; Erhardt et al., 2003; Gonzalez et al., 2014; Gordini & Rancati, 2017; Gull et al., 2018; Ittonen et al., 2013; Lakhal et al., 2015; Omoye et al., 2014; Peni & Vahamaa, 2010; Rose, 2007; Susanto, 2016; Zalata et al., 2018) have used the same model with the same control variables. However, this study uses new control variables, such as firm age, family firm, liquidity, dividends per share, sales growth and cash flow, all of which affect both EM and FP (for additional details, see section 3.2.3). Furthermore, many previous studies, such as Anderson and Reeb (2003), Bhatt and Bhattacharya (2017), Ebrahim and Abdel Fattah (2015), Markarian and Pozza (2008), Saito (2008) and Yang (2010), have confirmed that family firms affect EM and FP. In the specific context of Kuwait, this study uses a new measure of family firm: the founding family members of a family firm as a control variable (Ebrahim & Abdel Fattah, 2015). In addition, this study uses the largest sample and the longest period after the KCGC was implemented, increasing the validity of the finding.

1.7 Summary of the key findings

The findings of the first empirical study identify a significant relationship between BD and EM. When using the modified Jones model, the results show that although age diversity has a positive impact on EM, gender diversity and national diversity have no impact on EM. The Kothari model produces similar results concerning the relationship between BD in the form of gender, age and nationality.

Furthermore, in terms of FP in the form of return on assets (ROA), return on equity (ROE) and Tobin's Q (TQ), the study's findings show a negative relationship between gender diversity and ROA. The findings also reveal a significant positive relationship between AD and ROA.

Moreover, the findings show that ND is not associated with ROA. However, when compared with previous performance measures, ROA and ROE produce the same results, while TQ produces different results. The findings show a positive association between gender diversity and TQ. This is consistent with this study's hypotheses, theories and the previous literature. Negative relationships between both AD and ND and TQ are also identified. These results are inconsistent with this study's hypotheses, theories and the previous literature.

1.8 Research structure

Chapter 1 introduces the topic of this research study. It details the background, explains the research's focus, aim and objectives, presents the existing gap, highlights how this study intends to answer the research questions and clarifies the study's main contribution. Chapter 2 presents the specific context of the state of Kuwait. Chapter 3 is the literature review. Chapter 4 details the theoretical framework used in this study. Chapter 5 sets out the research methodology. Chapter 6 details the research findings. Finally, Chapter 7 presents the study's conclusions and limitations and makes suggestions for future research.

2.0 Chapter Two: The Kuwait Context

2.1 Introduction

This chapter presents a background to the research study, set in the Kuwait context. It begins by explaining why the researcher has chosen Kuwait for the research study. It then provides a brief history of Kuwait, followed by information about Kuwait's economy and stock market, known as Boursa Kuwait. Finally, it shares specific details about the KCGC and its effects on the corporate governance (CG) practices of the non-financial companies listed on Boursa Kuwait.

2.2 Why Kuwait?

Kuwait has been selected because the country is regarded as the most democratic GCC country; when last tested in 2017, it was ranked 119th globally (The Economist Intelligence Unit, 2017). In 1962, Kuwait became the first GCC country to have a Constitution (Cordesman, 2018), which forms the basis of the laws that apply to all Kuwaiti citizens (National Assembly, 2015).

In 1963, Kuwait became the first GCC country to establish a National Assembly; it is noteworthy that the next GCC country to do so was Bahrain in 2002 (Cordesman, 2018). In 1977, Kuwait became the first GCC country to establish a stock market, known as Boursa Kuwait). The Kingdom of Saudi Arabia, Oman, Bahrain and the UAE did likewise in 1980, before Qatar followed in 1990 (Cheikh et al., 2018).

From an economic standpoint, when compared with other GCC countries, Kuwait has an open economy. This means that all investors can seek entry to Boursa Kuwait and search its website

for comprehensive disclosure information on all the firms listed therein (Alotaibi, 2014; Al-Shammari and Al-Sultan, 2010).

Another example of Kuwait's progressive nature is that in 2006, women were allowed to stand and vote in elections for the first time. Nevertheless, no women won seats in the National Assembly (Alnufaishan & Alrashidi, 2019). In 2009, Kuwait became the first GCC country in which women entered Parliament (Alnufaishan & Alrashidi, 2019; Kinninmont, 2012; National Assembly, 2015; Odine, 2013). The Kuwait National Assembly, which is Kuwait's legislative authority, consists of 50 members elected by the Kuwaiti people. One of the National Assembly's key tasks is to study ministerial decisions (Bashir, 2019; Herb, 2002). It is noteworthy that the Kuwaiti population consists of 51% women and 49% men (The Public Authority for Civil Information, 2019). Consequently, with regard to the make-up of the Kuwaiti population, the aims and objectives of this study are to investigate whether or not gender diversity affects the EM and FP of the Kuwaiti non-financial firms listed on Boursa Kuwait.

In contrast to other GCC countries, which introduced CGCs much sooner, it was not until 2013 when Kuwait implemented the KCGC. Its implementation resulted in some changes to the diversity of companies BODs and more specifically to increased numbers of women.

It is also noteworthy also that in 2017, the Kuwaiti Government announced its vision of the country with the aim of transforming Kuwait by 2035 into a regional commercial, financial and cultural centre attracting investments from all parts of the world (New Kuwait, 2020). This vision takes account of the fact that 70% of Kuwait's total population comprises non-Kuwaiti citizens (The Public Authority for Civil Information, 2019). Also, 81% of the Kuwaiti

population is below 48 years of age old and 19% are older people (Public Authority for Civil Information, 2019).

2.3 Brief history of Kuwait

Kuwait is a country that has a petroleum-based economy. Winstone and Freeth (2017) state that Kuwait is among the wealthiest countries globally, balanced between social welfare and the modern economy. Kuwait's history provides a roadmap to its economic, political and sociocultural activities in the contemporary world. The Kuwaiti Royal family is descended from the Sabah Dynasty and has ruled the country since 1752 (Yom & Gause, 2012). Kuwait grew and developed rapidly in the eighteenth century as it became the central hub of commercial activities involving the transit of goods to other nations, including, among others, India and Arabia (Elsayed, 2020). By the mid-1700s, Kuwait had also become a vital trade route from the Persian Gulf to Aleppo in Syria. At around the same time, some merchants from Iraq took refuge in Kuwait following the Persian siege in Basra. Thereafter, they had a significant impact on the nation's trading activities from the boat-building expansions that played a vital role in the boom of Kuwait's maritime commercial activities (Zahlan, 2016). Moreover, between 1775 and 1779, countries such as India, Iran and Syria diverted their trade routes to Kuwait (Peterson, 2011). In 1792, The East India Company also amended its trade routes to include Kuwait and secured routes to the east coast of Africa and other parts of India (Peterson, 2011). The Great Depression resulted in a decline in demand for goods from India and Africa, which were Kuwait's main trading partners and hence the country began to lose its prominence in international trade, profoundly affecting its economy (Al Moosan & McLachan, 2017). The Persian siege, which ended at the end of the 18th century, shifted trade activities away from the Iraqi city of Basra and most of its traders fled to Kuwait (see Figure 3). This siege offered a new advantage to the country (Matthiesen, 2014). As a result of the region's

instability, Kuwait grew economically and became very stable and prosperous at the expense of Basra. The country also became home to merchants fleeing from persecution in Iraq in the late 18th century (Matthiesen, 2014).

In the 19th century, Kuwait proved successful in trading horses, with its now renowned ships in the Indian Ocean used to transport them to other countries such as India (Zahlan, 2016). During the 19th century, Kuwait became a British protectorate through the Anglo-Kuwaiti Agreement, which ensured its protection from the security concerns raised by the Ottoman Empire (Joyce, 2014).

In the early part of the 20th century during World War I, the British Empire imposed a significant trade block against Kuwait due to the ruler's involvement with the Ottoman Empire. This had a considerable effect on the country's economy (Alessa, 2017). During the 20th century, Kuwait was drastically affected by the Great Depression, which caused a decline in international trade, Kuwait's main economic activity before oil (Alessa, 2017). Following the end of World War II, there was an increasing worldwide need for oil and therefore Kuwait started to become prosperous from the oil industry (Joyce, 2014). More importantly, in 1962, Kuwait gained its independence from the protection of Britain. By mid-century, Kuwait had become the most significant regional oil exporter (Alessa, 2017). This economic development attracted individuals and corporations from across the globe (Crystal, 2016).

By the beginning of the twenty-first century, Kuwait had become relatively well established, with elite and wealthy families linked together as a result of marriage or mutual economic interest (Yom & Gause, 2012). This cosmopolitan elite and wealthy travelled extensively to Europe and other parts of the world and educated their sons to a greater extent than their fellow

Arab elites in other Gulf countries (Peterson, 2011). These wealthy families are now mostly trading merchants who, as their prime sources of wealth, primarily rely on pearling, building ships and long-distance trade.

The term ‘Kuwait elite’ also applies to the European office system in their general trade activities, as they follow European culture in their daily activities. Al Hamad and Al Ghanim are examples of the wealthiest merchant families, who by the middle of the 20th century were already worth millions Kuwaiti Dinar (Peterson, 2011). Nonetheless, at the beginning of the current century, trade blocks and global economic depression had a significant impact on Kuwait’s regional importance.

Figure 3: Map of Kuwait

Source: https://www.britannica.com/place/Kuwait

2.4 Kuwait's economy

Kuwait's currency is the Kuwaiti dinar (KWD). Kuwait mostly relies on oil as the foundation of its economy. Such reliance on an exhaustible resource is likely to create issues for its economy in general in the future. Kuwait also depends on large numbers of skilled immigrant workers (Al-Moosa & McLachlan, 2017). Additionally, future problems related to the exhaustibility of its vital minerals could have an adverse effect on the country's economy (Al-Sabah, 2017). Moreover, Alessa (2017) states that the swift growth of the country's economy has led to increased employment opportunities that cannot be filled by local people. Therefore, an expatriate workforce is needed to ensure the efficacy of the country's oil industry. In May 1982, the Kuwaiti Ministry of Finance closed the unofficial stock market due to a post-dated cheque being unable to be paid (Craig, 2019). Alanezi et al. (2016) and Almujamed et al. (2017) argue that mimetic and normative pressures, which led to the constant need to change the accounting system prior to the adoption of the International Financial Regulatory Standards (IFRS) in 1990, have primarily contributed to the country's economic development.

The Kuwait Investment Authority specialises in the international investment of the nation's sovereign wealth (Elsayed, 2020). Nevertheless, the inclusion of women in oil wealth is one of the most noteworthy advances made to ensure that Kuwait develops accordingly (Almujamed et al., 2017). Kuwaiti society has seen a rapid growth in female education (Almujamed et al., 2017). This social transformation has contributed significantly to Kuwait's economic growth. According to AlDabbous (2012), when the Al Manark stock market crashed, Kuwait lost its overall discipline and financial stability. Investors blamed the Kuwaiti Government for the crash as it had failed to regulate the Al Manark stock market (Abdullah, Naser, & Fayez, 2018).

The World Bank ranks Kuwait as the fourth-most prosperous nation in the world based on per capita wealth. The country is also listed as the second-most productive country after Qatar among the GCC countries (Al Ali et al., 2018) and is regarded as a leader compared to the others in the group (Biygautane, Hodge, & Gerber, 2018). The Kuwaiti financial sector's distinguished position dates back a few years, when the Kuwait stock Soul Al-Manakh traded well and market capitalisation became the third-largest after the USA and Japan (Haque, Patnaik, & Hashmi, 2017). In addition, Kuwait's investment companies are renowned for their superior administration of assets compared to those elsewhere in the GCC countries. The Kuwaiti financial sector's companies also account for roughly one third of the total assets managed by the GCC (Al Ali et al., 2018). Over the years, the listed Kuwaiti companies' valuations have been much higher than those of companies in other GCC countries, with the exception of Saudi Arabia (Al-Sabah, 2017).

Kuwait continues to accumulate its wealth from its substantial assets made abroad by its investment companies: over time, the country's foreign investment assets have come to exceed their domestic counterparts. The Kuwait Fund for Arab Development, created in the 1960s, has become a significant source of economic aid to other GCC countries (Al Ghamen & Hegazy, 2011). For instance, over the years, Egypt, Palestine, Syria and Jordan have all benefited from this organisation. From 2010 to 2016 and compared to all the other GCC countries, Kuwait issued the highest number of patent rights to its citizens (Koshy, 2016). In the Arab world, Kuwait is additionally recognised for its various programmes that facilitate creativity and innovation.

The tourism and agricultural sectors of the Kuwait economy have been doing relatively well: the former accounts for 1.5% of the country's gross domestic product (GDP) while the latter

accounts for 0.4% (Koshy, 2016). In 2016, the tourism sector generated $500million for the country's economy (Koshy, 2016). The Hala Febrayer festival, which celebrates the country's liberation, attracts tourists from the neighbouring GCC countries and, because it lasts for an entire month, brings in a significant amount of revenue (El Issawi, 2013). On the other hand, Kuwaiti agriculture remains limited by a lack of water and arable land. Nevertheless, in South Kuwait, the situation is complicated because most of the soil, which was initially friendly to agriculture, was destroyed when the oil wells were set on fire by Iraqi troops during the Iraqi invasion of Kuwait on 2 August 1990 (Bachmann & Sanden, 2013). Fishing is another key Kuwaiti economic activity and is mostly carried out in the Indian Ocean (Koshy, 2016). Entrepreneurship has also gained popularity in the economy through the development of the informal sector. Most Kuwaiti entrepreneurs utilise online platforms such as Instagram to market their products (Al Ghanem & Hegazy, 2011). Kuwait's vision for 2035 is a strategic plan that the country is taking towards a bright and promising future. Besides oil revenues, this plan aims to implement other profitable prospects on which the country can rely (Al Ali et al., 2018). Since the plan's launch a couple of years ago, Kuwait has embarked on new initiatives in the non-oil sector, including business and commerce, attracting investors (Elsayed, 2020). As per the International Monetary Fund's (IMF) predictions, the Kuwaiti economy is expected to grow by roughly 3% by the end of the current year (Elsayed, 2020). Therefore, non-oil sector companies are undergoing major changes in terms of their development.

2.5 Boursa Kuwait

Boursa Kuwait was previously known as the Kuwait Stock Exchange (KSE), formed in 1977 to help Kuwait regulate its stock market, which is mainly controlled by four central bodies: the Ministry of Finance; Boursa; the Central Bank of Kuwait; and the Ministry of Commerce and Industry (Al-Ghanem & Hegazy, 2011). In 2016, the KSE was transformed to Boursa Kuwait.

This change indicated that the benefits of connecting with evolving market indices include the increased desirability of the capital market, the entry of international investment; the enhancement of investment and an ability to reassure qualified investors of their contributions to the economy (Boursa Kuwait). Boursa Kuwait has evolved the criteria that new companies must meet to be listed (Algharaballi, 2013). According to Elkalla (2017), the adoption of the IFRS has contributed significantly to the high earnings enjoyed by many in the Middle East and North Africa (MENA) region. Investors face potential risks from share prices in companies listed on Boursa Kuwait (Al-Yatama et al., 2020). According to Al Ali et al. (2018), one of Boursa Kuwait's main functions is to list companies, for instance, telecommunications corporations. Therefore, one can use Boursa Kuwait's website to search for a company's annual reports.

The dissemination and the implementation of Boursa Kuwait's new rule book since April 2018 have resulted in the transformation of Kuwait's capital markets (Biygautune et al., 2018). The new rule book's main purpose is to clarify the regulations and the organisational structure of Boursa Kuwait and all its aspects. The new regulations have split the market into three parts: premier, auction and primary. Each segment tailors the most appropriate way to provide information to members about the requirements for a listing (Biygautune et al., 2018). In September 2018, as a result of these reforms, the FTSE upgraded Boursa Kuwait to secondary emerging market status (Sadeghi, 2011). Consequently, in December 2018, it was added to the S&P Dow Jones Global Benchmark Indices (Sadeghi, 2011). It has been predicted that, due to the improvement of the activities provided by the new framework, these kinds of upgrades will attract even more investors to Boursa Kuwait. Before being privatised in 2014, Boursa Kuwait was one of the oldest stock markets in the Arab region. This move was intended to modernise the whole sector. Therefore, the changes to Boursa Kuwait began to take place in 2014 when

the Kuwaiti Government made the decision. The capital markets authority (CMA) played a significant role in the process and in 2016 it facilitated the transfer of the KSE's management, assets and licences to Boursa Kuwait (Koshi, 2016). In compliance with the CMA's law, the second stage of privatisation began 2018 and was completed in February 2019 (Koshi, 2016). At present, major international corporations consisting of global principal stock market operators like the Athens stock exchange and Al Oula investments are working together with Kuwaiti financial institutions (Al Ali et al., 2018). This is a very promising position for the Kuwaiti economy generally, not least its local capital markets.

2.6 Corporate governance in Kuwait

Kuwait's accounting rules are not intrinsically complex. The tax year begins on 1 January and ends on 31 December. Although Kuwait lacks a mandatory accounting system, numerous companies have been advised to use the IFRS (International Federation of Accountants, 2019). The leading regulatory bodies are Boursa Kuwait and the Public Authority for Industry. Law No. 5 of 1981 governs and controls the procedures of account certification (Ali, 2018). The Kuwait Association of Accountants and Auditors (KAAA) ensures that all Kuwaiti companies follow stipulated accounting and auditing standards (Altaher, Dyball, & Evans, 2014). In this respect, the KAAA works in collaboration with the Kuwaiti Government to uphold the standards. Kuwait has adopted a new financial execution strategy that was introduced in the Capital Markets Law No. 7 of 2010 (CML) and issued the code in 2013, although its implementation was postponed several times in 2014 and revised again in 2015, before finally being applied in 2016 (Ali, 2018; Capital Market Authority, 2015). Additionally, Kuwait has various requirements for the accounting reports. All commercial companies are required to keep several records in Arabic.

These records primarily include a stock shares evolution account, an inventory, a general ledger, a sales journal and an expenditures analysis manuscript. For fiscal analysis, each Kuwaiti corporation is obligated to make a statement regarding its financial position and a record of its profits and losses (Lessambo, 2016). Companies are given three months after their financial years to present these reports to the Ministry of Commerce and Industry (Alotaibi, 2014). International corporations aiming to trade on Boursa Kuwait should ensure that they generate accounting publications (International Federation of Accountants). Therefore, they should conduct their journals two years before the date on which they wish to start to indicate their profits and their general structure (Alotaibi, 2014). Moreover, before sanctioning the firm, Boursa Kuwait's Council of Directors has the legal capacity to demand other components (Almujamed et al., 2017). Following approval, companies publish their reports within the next three months after every fiscal year. By contrast, for periodic accounts, businesses are allowed a timeframe of two months after the end of the financial year (Alfaraih & Alanezi, 2011). Furthermore, independent bodies from the corporations listed by the Ministry of Commerce conduct auditing and certification.

The efficiency of these operations results in a clear understanding of the management: there will be no conflicts and the management can focus on the company's profitability and growth. If the company has a well-structured BOD and is consistent in its meetings whereby the members discuss the company's long term and short- term strategies, both, then, the company will be successful. This process facilitates company planning, which is vital for growth. Corporate governance also involves the operation of risk management as well as having internal controls that assist in mitigating the various risks that arise with a company's operations (Alfraih & Almutawa, 2017). Therefore, by developing alternative mechanisms, the entire risk management process provides assurances that a company is well managed.

Good corporate governance practices also represent a selling tool for diverse stakeholders and the general public. Such companies have an excellent reputation in the broader society and many investors are willing to be associate with them (Liu et al., 2019; Piskin & Kamanli, 2020; Santiago et al., 2019). The Kuwait Business Town (KBT) Real Estate Company is an excellent example of a company that has adopted corporate governance (AlDabbous, 2012). The KBT applies the guidelines issued by 2015 CMA Resolution 72 to ensure that the company's decision-making process is reliable and transparent (Capital Market Authority). Its BOD's main functions are to monitor the performance of the company's management, to maintain the firm's profitability, to ensure that stakeholders' interests are taken care of and to achieve higher growth ratios. Importantly, the KBT's BOD consists of three committees: the Audit Committee, the Risk Management Committee and the Nomination and Remuneration Committee. Notably, the KBT also has a code and ethics unit to regulate its BOD's members, its staff and its other stakeholders, all of whom are expected to abide by the group (Al Mutairi et al., 2012). The code and ethics unit mainly outlines principles like integrity, equality and professionalism that have all contributed significantly to the company's good reputation and image.

The Audit Committee ensures the sound application of the CG rules. It also ensures compliance with the policies in terms of the transparency and the integrity of the company's published financial reports (Chadha, 2016). Further, the Audit Committee is charged with ensuring that the company's internal control systems are efficient and up to date. The Committee generally meets at least twice a year, unless in the case of an emergency (Capital Market Authority, 2013). On the other hand, the Nomination and Remuneration Committee prepares recommendations from the nominations it deems best with regard to the members of the company's BOD and management. The Nomination and Remuneration Committee

additionally develops policies and processes that regulate the company's compensations or remunerations. The Nomination and Remuneration Committee meets annually or whenever there is a need for it to do so (Capital Market Authority, 2013).

Before 2013 and the implementation of the KCGC, Kuwaiti companies and Boursa Kuwait grew significantly over time. However, Kuwaiti CG trends have not been consistent with the development of Kuwaiti companies. This lack of Kuwaiti CG practices has created serious challenges throughout the country. In addition, on the "*Ease of Doing Business and Competitiveness*", Kuwait has been graded as one of the worst GCC countries. Indeed, Kuwait has many problems that continue to hinder the implementation of a proper CG structure. For instance, Kuwaiti CG practices involve a pyramid of large shareholdings based on multifarious CG structures whereby companies' powers and authority are in the hands of their senior directors and managers. This has resulted in companies being less transparent and disclosing ineffectual information about their business activities (Capital Standards, 2010).

The findings of Al-Saidi and Al-Shammari's (2014) study on the KCGC reveal the benefits of the effective implementation of CG practices that provide equal value to all stakeholders. They also point out the flaws in Kuwaiti CG practices, which need to be rectified in order to be implemented effectively. Furthermore, the findings of Alshammari and Alsultan's (2010) study of 170 firms listed on Boursa Kuwait in 2007 show the association between the KCGC and voluntary disclosure. These authors conclude that Kuwaiti CG practices need to improve market transparency. Moreover, through studying nine listed Kuwaiti banks in the period from 2006 to 2010, Al-Saidi and Al-Shammari (2013) have investigated the relationship between bank performance and board size. Their results show that in the absence of the KCGC, there is

a negative relationship between bank performance and board size. Moreover, Almujamed et al. (2017) have confirmed that no CG code was issued until 2012. According to Al-Saidi and Al-Shammari (2014), board committees are deemed to be significant in Kuwait; moreover, companies' BODs and dividends are matters that are said to be best addressed by companies' main shareholders rather than all their stakeholders. Notwithstanding, various other CG practices are neither systematised nor controlled in Kuwait. For instance, banks with small roles and ownership structures pose difficulties for listed firms, especially those employing unproductive independent directors. On the other hand, Kuwait has CG practices that deal with the country's legal system, stakeholders' and shareholders' rights and the protections given to shareholders. Moreover, Kuwaiti rules and regulations do not clearly identify and address accountability, which is a critical element of CG practices (Al-Saidi & Al-Shammari, 2014).

According to Alfaraih, Alanezi and Almujamed (2012), large numbers of countries have implemented a wide variety of laws, rules and regulations to govern and supervise their CG practices. On the other hand, Kuwait's CG practices are controlled through state ownership and there is a predominance of family businesses in the country (Al-Saidi and Al-Shammari, 2013). In short, concentrated ownership is the main feature of Kuwait's CG practices. Furthermore, while it shares most of the viable features of the other GCC countries, Kuwait has an incompetent legal framework for its business sector. In fact, prior to the KCGC being implemented in 2013, it was the only GCC country without any CG rules and regulations (Alfaraih et al., 2012; Al-Shammari, 2005). Prior to Al-Shammari's (2014) and Al-Saidi and Al-Shammari's (2014) studies, few investigation on the effectiveness of Kuwait's CG practices existed. These two studies have shown that one of the key features of Kuwait's CG practices

is the requirement for joint auditors. Kuwait is one of only a few countries that requires joint auditors, as most other authorities simply need a single auditor.

Another important feature of the KCGC is the implementation of a unique blockholder ownership structure. There are various types of ownership, such as institutional, government, family and royal family (Al-Shammari, 2015; Al-Shammari & Al-Saidi, 2015). In this scenario, family ownership predominates across all parts of Kuwait. The overall concept of CG practices requires that all associated stakeholders' perspectives are considered and that equal importance is given to all of them. On the other hand, many Kuwaiti listed companies have substantial family ownerships, adding to the difficulty of implementing the KCGC (Al-Saidi & Al-Shammari, 2013). Given that there is a single controlling power with responsibility for major decisions and bearing overall authority, the country has a distinctive kind of CG structure. Furthermore, during 2010 Hamdan and Al-Sartawi (2013) examined the relationship between CG practices and institutional ownership in Kuwait, revealing that institutional ownership reduces the quality of Kuwait's CG structures. However, a variety of laws and regulations are in place concerning the implementation of such types of CG practices (Al-Saidi & Al-Shammari, 2014; Al-Shammari, 2014).

In March 2013, after the CMA board of the met to consider Law No. 10, they decided to issue the CMA corporate governance code, which was subsequently signed by the board chairman Saleh Alflah and implemented on 27 June 2013 (Capital Market Authority, 2013). Hence, before this time there was no KCGC for companies listed on Boursa Kuwait (Almujamed, Tahat, Omran, & Dunne, 2017). The 2013 KCGC brought various changes. In particular, it

provided solutions to CG issues experienced by companies prior to 2013, such as transparency, conflicts of interest and full disclosure (Capital Market Authority, 2013). First, it led to the new companies law stipulating that the CMA decree incorporates guidelines on the formation of a constant CG framework for corporations structured by the CMA (Al-Habshan, 2017). Second, under the CMA, the Sixth Rule expresses the need to encourage ethical standards and accountable conduct by members of BODs (Al-Habshan, 2017; Capital Market Authority, 2013, 2019). Third, KCGC Regulation No. 212 of the CGC altered the minimum board size from two to five directors (Capital Market Authority, 2013). Fourth, the chairman of a BOD cannot be the company's chief executive officer (CEO) at the same time, but as prescribed in KCGC Regulation No. 214, other members of the BOD can hold a dual position (Capital Market Authority, 2013). Furthermore, according to Principle No. 5/3, all companies must have an audit committee and they should use an external audit company to carry out a yearly evaluation and review of it (Capital Market Authority, 2013). However, the KCGC makes no mention of gender, age and national diversity. These changes have been used to promote the KCGC, especially to promote its accounting and auditing standards.

2.7 Summary

In summary, this chapter began by establishing the background to this research study. Next, it explained why the researcher has chosen Kuwait for this research study, followed by a brief history of Kuwait, along with information about the country's economy and stock market, known as Boursa Kuwait. Finally, this chapter provided specific details about the 2013 KCGC and its effects on the CG practices of the non-financial companies listed on Boursa Kuwait. The following chapter is the literature review.

3.0 Chapter Three: Literature Review

This chapter reviews the literature and consists of two sections. Section 3.1 explains the background and context of this research. Section 3.2 reviews previous similar research studies.

3.1 Background and research context

This section first explains the background and research context of corporate governance (CG), board diversity (BD), earnings management (EM) and firm performance (FP). Second, it explains the principles and features of effective CG in Kuwait.

1. Corporate governance

In recent years, the concept of CG has emerged as an attractive trend for business organisations. The term provides business organisations with a wide range of advantages and opportunities that help them negotiate various challenges. There has been growing interest in CG since the 1990s mainly due to the major collapses of giant corporations and the privatisation of the public sector in the UK as well as the increased importance of globalisation (Dreher et al., 2008; Vickers & Yarrow, 1991). In response to these corporate and financial crises and, in particular, the 2007 global financial crisis, there have been many significant parallel worldwide developments in CG practices. There are various concepts of CG available depending on the time of the definition, the country's legal system and the country's economic culture. Despite the diversity of definitions of CG, each shares a common element: CG is a set of mechanisms arranging the relationship between a firm's management, its shareholders and other stakeholders. For example, according to the Cadbury Code of Corporate Governance (1992, p. 4), CG can be defined as "the system by which companies are directed and controlled".

Aguilera (2005) defines CG as the distribution of rights and responsibilities among the different parties involved in a corporate organisation, whereby the corporate organisation is a social system with pluralist interests and common objectives. Additionally, Aguilera and Cuervo-Cazurra (2009) define a CG code (CGC) as a set of best practice recommendations relating to the mannerisms and the organisation of the BOD. Furthermore, Aguilera and Jackson (2010, p. 487) note that a broad definition of CG would be "the study of power and influence over decision making within the corporation". In addition, it has been argued that CG pertains to the organisation of rights and responsibilities among parties with shares in the firm, that this CG uses techniques to ensure that executives respect shareholders' interests and that the shareholders act responsibly towards the wealth invested in the firm (Aguilera & Jackson, 2003; Aguilera et al., 2008; Aguilera, Florackis, & Kim, 2016).

Filatotchev and Boyd's (2009) definition of CG is similar to that of Aguilera et al. (2008) but more broadly ensures the effective and efficient running of firms. Filatotchev, Jackson and Nakajima (2013) argue that top managers' interests and those of shareholders should be aligned. From this perspective, they define CG as the organisational practices that monitor and restrain managerial discretion (Filatotchev et al., 2013). CG may also be described as regulations designed to ensure a structure that underpins the relationship between a firm and stakeholders who may have financial claims against it (Filatotchev et al., 2007).

CG is a set of regulations and policies that control a company's BOD, shareholders and other stakeholder relationships (Al-Wasmi, 2011). It additionally provides a framework for a company's goals and objectives and identifies the parties that are responsible for its general performance (Al-Wasmi, 2011). CG is a source of motivation for all of a company's stakeholders and it also ensures the proper utilisation of its resources and the efficiency of its

operations (Almujamed et al., 2017). Under these circumstances, a company's BOD and executive management are seen to have the company's interests at heart (Almujamed et al., 2017). CG has various functions in a company. The main one is that a company is more likely to obtain funding from outside lenders if it has implemented a proper governance system (Alfraih & Almutawa, 2017). By doing so, it can successfully grow. Companies that have sound policies in place are more likely to attract investors willing to pay premiums for their shares.

Judge et al. (2008) provide an alternative definition by arguing that CG refers to a route through which a nation channels corporate influence for the fair and efficient distribution of wealth throughout its economy. Although La Porta et al. (2012) do not define CG, they note that the effectiveness of a financial system can be traced to the protection of investors against expropriation by insiders: when laws are protected and enforced, financial markets are wider and more valuable.

On the other hand, Khan (2011) and Raut (2018) define CG in a broad sense as a process through which organisations assign business resources in such a way as to make the most value for all associated business stakeholders, such as investors, shareholders, customers, employees, the environment, suppliers and the general public, while additionally ensuring that those at the controls are accountable by assessing their decisions and judgements in terms of inclusivity, transparency, equity and accountability. Furthermore, La Portal et al. (2000) present CG as a set of mechanisms that a firm's external stakeholders can use to protect their interests and the rights of internal stakeholders, such as the BOD and shareholders. Furthermore, the Organisation for Economic Co-operation and Development (OECD, 2004, p. 11) defines CG as follows:

> *"Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interest of the company and its shareholders and should facilitate effective monitoring."*

However, despite the fact that these definitions may help identify some essential elements of CG, they generally remain vague. Perhaps one of the clearest definitions has been provided by Solomon (2007), who states that CG is a set of mechanisms used to manage and control organisations in order to provide effective internal control systems and risk management. This study discusses the concept of CG in the context of a specific country – Kuwait – and the trend from this nation's perspective.

It is a widely acknowledged fact that by allowing all business stakeholders to play a part in their resolution, CG is an effective tool for addressing business issues. Despite the fact that CG can play a critical role in the development of an organisation, its performance, its EM and regardless of the ever-increasing worldwide value of CG practices, Kuwait's acceptance and implementation of this model is still immature (Al-Saidi & Al-Shammari, 2014; Capital Standards, 2010).

2. Board diversity

According to Angelov (2015), BD in any firm is necessary to ensure excellent performance and global growth. This is due to the many benefits that accrue from BD. Based on Gentleman's (2011) findings, all firms should strive to use all available means to attain the best possible levels of BD. A difference can be made only if a board disregards traditional corporate stereotypes and, with the full support of the other members, appoints at least three women to the board (Burton, 1991). Through being representative, such a board attracts more people to the firm and its business activities. As shown by Armstrong's (2017) study, BD also helps to create healthy debate. This is due to the divergent nature of the views expressed by members of a board who come from different backgrounds. This represents a profitable attribute for a firm's business activities. According to Wang and Huynh (2013), the key to good BD revolves around the appointment of the correct mix of members so that everyone can share in the firm's objectives.

BD is all about the board having the necessary experience and attitude and, most importantly, achieving and maintaining the correct balance in terms of its members' gender, age, religion and background (Freeman, 1984). Boards must be able to understand and reflect the full dynamics of contemporary society so that they can prepare themselves for the evolving business arena (Chanavat & Ramsden, 2013). It is through such BD that ideas are discussed that help firms to develop and grow their business activities. Firms must be able to overcome the existing conscious bias in human resources, because this limits the scope within which they appoint members to the board and in turn carry out their business activities (Freeman, 1999). Furthermore, BD benefits the firm in being more receptive to other groups. By doing so, it is able to engage in arrangements that improve the firm's business activities. NEVCO Education

and Kanopy (2017) state that BD also offers an advantage when the firm's shareholders consist of diverse groups.

Through meeting shareholders' respective requirements, the firm's reputation is able to improve and develop its operations to match the needs of the market. Furthermore, through the adaptability and the accommodating nature of the members on the board, the firm may achieve its objectives in growing its business. Gentleman (2011) also points out that a local community is more likely to work with a firm that has directors who form a specific diverse culture. This is because this attribute increases the local community's level of confidence in the firm and its operations. According to Wang and Cliff (2009), good BD is based on how board members work together collectively, adapt to new environments and broaden their thinking by tackling all the issues that arise within the firm's operations.

According to Coffey and Wang (1998), boards that do not adapt to diversity tend to experience difficulties with current technological, social, economic and geopolitical issues. Consequently, they underperform because it is already too late when they realise that there is a problem. Diversity represents a key tool that firms can use to survive the evolution that has occurred over the past decade in the corporate arena (Erhardt et al., 2003). It provides boards with the opportunity to tackle and solve a given problem in diverse ways. It also enables firms to implement their ideas in different ways (El, 2018). In this regard, gender diversity forms the foundation of a firm's better CG, leadership, competitiveness and performance (Carter et al., 2003). Therefore, it is essential that firms put in place corresponding measures to facilitate BD. This acts to improve the firm's performance.

3. Earnings management

It is every firm's goal and objective to develop its business activities and thrive in the marketplace. In order to realise its desired development and growth, it is essential that the firm has in place a proper framework to manage its earnings (Chapman, 2017). The best way to manage earnings is to employ someone responsible for the proper financial control of business activities. Based on Sutrisno's (2017) findings, the firm's accounts of its operations should be straightforward and consistent. Such a system ensures that its accounts contain accurate and representative amounts and figures, providing an accurate and fair reflection of its financial position and FP. By gaining investors' confidence, the firm is able to make the best use of its investments and, through EM, ensure its profitability. On this basis, the firm obtains sufficient funds to grow and EM helps it to control its levels of expenditure (Bertelsen, 2011). For example, if the firm reduces its expenditure, it is likely to increase the net profits from its business activities. As mentioned by Bertelsen (2011), proper EM reduces the firm's levels of wastage and misappropriation of funds. Furthermore, less wastage helps the firm to control its income and expenditure more effectively. The presence of someone responsible for EM provides the firm with many opportunities to grow its business. This includes ideas on how the firm can either invest its profits or plough them back into its operations and hence achieve better returns from its investments (Walsh, 2016). By doing so, the development and the growth of the firm's business activities become an attainable objective. Therefore, EM is a key and vital element of a firm's FP. However, evidence from a Kuwaiti study of 415 observations of Kuwaiti listed firms between 1995 and 2006 revealed that firms would manipulate their earnings to maximise their interests and to provide their shareholders with incentives to increase their investments (Algharaballi & Albuloushi, 2008).

On the other hand, many researchers (e.g. Alsharairi and Salama, 2012; Chapman, 2017; Chen et al., 2008; Chih et al., 2008; Dechow et al., 1996; Habbash et al., 2013, 2014; Healy and Wahlen, 1999; Klein, 2002; Prior et al., 2008; Schipper, 1989; Sun et al., 2010; Wild, 1996) have paid a great deal of attention to EM. In this regard, Healy and Wahlen (1999) define EM as being dependent on reported accounting numbers. These can either affect the firm's contractual results or mislead stakeholders about the firm's underlying performance (Roychowdhury, 2006; Sun et al., 2010; Xie et al., 2003). Moreover, Barton and Simko (2002) define EM as the use of accounting techniques to produce financial statements and records that paint an exaggerated positive picture of a firm's business activities and its financial position. Moreover, EM reduces the quality of the firm's financial reports, on which shareholders base their investment decisions. In addition, EM practices diminish the reliability of the firm's accounts and do not provide a true picture of its FP (Habbash et al., 2013). Many corporate scandals have resulted in shareholders suffering massive losses to their investments (Dechow & Skinner, 2000; Habbash & Salama, 2014; Healy & Wahlen, 1999; Ronen & Yaari, 2008). Particular examples are the dotcom bubble in 2000, Xerox, WorldCom, Tyco, Adelphia, Enron and Global Crossing.

In summary, it is noteworthy that a firm's management is able to manipulate the EM between different accounting periods and, by doing so in any given period, change investors' perceptions of the firm's FP (Alsharairi & Salama, 2012).

4. Firm performance

Chapman (2017) states that in order to gain the trust of actual and potential investors, a firm must undertake its operations in a manner that boosts its FP. The invested ROA should be

positive. All the invested assets must derive maximum returns to the business (Chapman, 2017). Walsh (2016) asserts that, on this basis, the firm should clearly state its operations and work towards the attainment of these objectives. Likewise, the firm's ROE should be high and profitable. By making good ROE, the firm's equity holders and other investors will gain trust in the business (Walsh, 2016). Albrecht, (2004); El (2018) confirms that this is achieved through profitability, which is attained through the application of two strategies: profit maximisation and cost reduction. According to Amores (2014), profits are maximised through the firm, ensuring that its undertakings and operations are carried out efficiently. This can also be achieved through the firm's diversification of its sources of income. Accordingly, through the reduction and control of its levels of expenditure, the firm increases its gross profits. A reduction in expenditure is achieved through the elimination of irrelevant costs in its operations (Gottardo, 2019). Efficiency is also achieved through other strategies, such as the recycling of products and materials; accordingly, the firm should derive maximum value from its returns. In such circumstances, the TQ ratio should be greater than one. The firm's performance is additionally determined by the level of application of modern-day technologies (Wang et al., 2018). On this basis, the firm should seek to use the most recent technological trends in order to benefit from greater efficiency and cost reductions in its operations (Ronen, 2011). Furthermore, technological advancement and application help to create a better reporting basis of the firm's FP (Wang et al., 2018) and provide a clear picture on growth trends and overall development (Schimmer, 2012). Ronen (2011) states that FP is also enhanced through the analysis and the implementation of the latest global trends. Such trends can be determined by scrutinising the market and analysing FP (Schimmer, 2012). It is through such actions that the firm is able to make positive statements about shareholders' total returns. Shareholders' returns are increased by the firm's ability to make returns from its investments through high levels of profitability (Mahr, 2010). On this basis, the firm should put in place trend prediction

mechanisms in order to determine the new trends so that it can act on them. By doing so, the firm is able to respond to the trending aspects of its business (Walsh, 2016) and achieve maximum profitability from its operations (Mahr, 2010). Yates' (2016) findings show that FP is the crucial determinant of whether or not a firm achieves its operational goals. Accordingly, it is vital that the board puts in place measures to improve the achievement of such goals (Yates, 2016). The next section presents a brief discussion of all the aspects of CG in the context of Kuwait.

3.2 Review of similar research studies (empirical studies)

3.2.1 Board diversity (gender, age and nationality) and earnings management

Gender diversity (GD) and earnings management (EM)

Peni and Vahamaa (2010) and Gull et al. (2018) assume that women on a board provide greater motivation because, among other aspects, they have moral values and follow more conservative EM strategies that reduce their firm's EM. Moreover, Betz et al. (1989), Hoffman (1998) and Karandikar et al. (2019) have shown that while the main focus for men is gaining more money and reaching a higher position at work, women help others and possess superior moral values to men in relation to financial gain. Furthermore, Sanda, Mikailu and Garba (2006) have indicated that due to the conservatism of management in some developing countries, women comprise less than 5% of BOD and CEO positions. Peni and Vahamma's (2010) and Sanda et al.'s (2006) findings provide clear evidence that where there is GD within firms, EM becomes more effective, because the gender parity is conservative and, compared to the other members of firms boards, their boards are more cautious about spending money.

However, Al-Mamun et al.'s (2013) and Guedes et al.'s (2018) findings show that there is no direct connection between either GD in the boardroom or the improved skills of the firm's management in relation to EM in order to prevent unnecessary spending and, at the same time, promote good monitoring practices. Nevertheless, in relation to Nigerian banks, Issa et al.'s (2018) findings show that neither has any effect on existing practices on manipulating EM.

The findings of studies conducted by Labelle et al. (2010), Lakhal et al. (2015), Omoye et al. (2014), Susanto (2016) and Zalata et al. (2019) reveal a negative relationship between GD and the probability of the firm engaging in practices of manipulating EM. Similarly, the findings of studies conducted by Geiger and Connell (2001), Enofe et al. (2017), Hinz et al. (1997), Powell and Ansic (1997), Riley and Chow (1992), Triki Damak (2018) and Zalata et al. (2018) confirm that GD reduces EM. In addition, the findings of Byrnes, Miller and Schafer (1999), Omoye et al. (2014) and Powell and Ansic (1997) show that men are more likely than women to take greater risks when making financial decisions and, therefore the number of women on the board reduces the firm's EM Furthermore, the findings of Kaplan et al.'s (2009) and Labelle et al.'s (2010) studies of Canadian firms indicate that in terms of financial gain in their professional lives, men are less ethical than women and, when there is a higher number of women than men on the board, there is less manipulation of the firm's EM. Such a situation also leads to higher quality in the information disclosed about the firm's earnings (Srinidhi et al., 2011).

In European countries, Kyaw et al.'s (2015) findings show that BD mitigates the adverse effects of EM. In addition, the findings of Labelle et al.'s (2010) 2004–2005 Jantzi Research (JR) study reveal a significant negative relationship between GD and firms' EM companies. Gavious et al.'s (2012) findings agree that there is a negative relationship between women

directors and EM, because if the firm has a female CEO or chief financial officer (CFO), its EM is lower. Moreover, Arun et al.'s (2015) findings show that female directors of UK public organisations are increasingly conservative and are accordingly bound to be engaged in reducing the manipulation of EM. From their findings, Na and Hong (2017) make clear that, unlike their female counterparts, male CEOs use aggressive discretionary accruals that increase their firms' EM. Furthermore, Gull et al.'s (2018) hypothesis is that demographic diversity (such as in terms of behaviour, educational background and experience) has the ability to monitor a firm's activities and thereby reduce EM. However, Gull et al.'s (2018) hypothesis has been rejected because the majority of studies show that demographic diversity has a positive relationship with EM. Similarly, by using 2,279 firms and 15,842 directors of Turkish firms listed on Borsa Istanbul, Arioglu (2018) examined the relationship between GD and EM. His findings confirmed that, contrary to his expectations, there was a positive association between the number of female directors and EM. Arioglu justified his finding on the basis of Turkish culture not allowing significant GD on firms' boards.

From the psychological aspect, men are often more confident than women and so they take more risks in their decision making (Barber & Odean, 2001; Be'eri et al., 2019; Berthome et al., 2019). Furthermore, from examining 500 firms between 1996 and 2000, Krishnan and Parsons (2008) show that there is a significant relationship between GD and EM and that firms disclose more high-quality earnings when there are more women among their senior management (Bernardi & Arnold, 1997; Betz et al., 1989; Krishnan & Parsons, 2008). Furthermore, when making authoritative choices, women are less tolerant of opportunistic conduct because they wish to be more altruistic in helping other people (Krishnan & Parsons, 2008). Moreover, akin to Srinidhi et al.'s (2011) findings, those of Musyoka et al.'s (2015) examination of Kenyan firms between 2010 and 2014 reveal a positive association between

GD and EM. However, Nyoka (2018) has tested the relationship between GD and EM in all listed manufacturing firms from 2011 to 2017 in Kenya, finding a statistically significant negative correlation, leading to reduced manipulation. Oegema (2017) has studied a similar relationship using a sample of eight European Union (EU) countries (Finland, Denmark, the Netherlands Sweden, Austria, Germany, Ireland and Italy) from 2012 to 2016, finding a significant negative relationship between GD and EM. Drawing on the theory of critical mass, Oegema (2017) also reported evidence that this relationship constitutes the significant effect when the percentage of females on boards is 30% or higher. In GCC countries the UAE government has increased female representation on boards by 20% (Dubai Women Establishment, 2020; Khaleej Times, 2017). Importantly, Hoffmann et al.'s (2018) findings are consistent with those of previous studies showing that a board with a balanced number of men and women can mitigate EM practices.

Age diversity (AD) and earnings management (EM)

From the literature, few studies have examined AD and EM systematically. AD refers to the existence of varied age groups in top management positions, such as CEO, the BOD and senior management (Carter et al., 2003; Lausten, 2002). The appointment of younger and older people to these positions brings about valuable management perspectives and enables boards to blend experience and creativity (Li et al., 2014). Indeed, while younger directors bring creativity to the monitoring process and make it less hectic and error-prone, older directors use their experience to ensure that the monitoring system is both accurate and effective (Wegge et al., 2008). In this regard, from his examination of 77 Kazakhstani firms between 2010 and 2016, Umitey's (2018) findings show that there is a negative relationship between AD and EM. However, from his examination of 65 firms listed on Kenya's Nairobi Securities Exchange between 2010 and 2014, Musyoka et al.'s (2015) findings indicate a positive relationship

between AD and EM. This confirms that a board's AD increases the firm's EM (Musyoka et al., 2015). However, from examining 80 listed Malaysian firms between 2008 and 2017, Victor and Edwin's (2019) findings show that there is no relationship between AD and EM.

National diversity (ND) and earnings management (EM)

Few studies currently exist pertaining to national diversity (ND). In this regard, Hart's (2014) findings show that the ND of a board's members through their different backgrounds and experiences provides it with divergent views on management issues. From their respective studies, Isa and Farouk's (2018) and Nyoka's (2018) findings show that there is a significant positive relationship between foreign directors and EM. Furthermore, Nyoka's (2018) findings indicate that in Kenya, there is a positive relationship between AD and EM. French and Raven (1960) and Ramaswamy et al. (2001) believe that foreign directors work in many positions and, due to the power of their exports, firms that have such good positions affect the management process. From examining the association between ND and EM in Kenya, Musyoka et al.'s (2015) findings show that there is a positive relationship between ND and EM, meaning that foreign directors increase a firm's EM. Gull et al.'s (2018) and Jiraporn, Miller, Yoon and Kim's (2008) findings show that, according to busyness theory, directors' busyness is harmful to the firm. However, Baatour, Ben Othman and Hussainey'ss (2017) findings show that directors who have multiple directorships do not affect their firms adversely. Besides, Hooghiemstra et al.'s (2016) findings show that because of their knowledge of different accounting procedures, foreign directors have a positive and significant impact on firms' level of EM.

On the other hand, from their examination of Nigerian firms, Enofe et al.'s (2017) findings show that there is a negative relationship between international diversity and EM. Furthermore,

their findings confirm that foreign directors play an essential role in reducing the manipulation of EM. By contrast, from their examination of Malaysian firms, Rauf et al.'s (2012) findings show that foreign directors on the board do not affect EM.

3.2.2 Board diversity (gender, age and nationality) and firm performance (FP)

Gender diversity (GD) and firm performance (FP)

Many authors have examined the relationship between GD and FP (e.g. Adams & Ferreira, 2009; Carter et al., 2007; Erhardt et al., 2003; Giannetti & Zhao, 2019; Gordini & Rancati, 2017; Rose, 2007; Schmidt, 2019). This relationship is of significant concern to the labour market and various practices have been adopted to improve firms' effectiveness in this respect (Miller et al., 2009). Furthermore, Erhardt et al. (2003) agree that there is a positive relationship between GD and ROA and return on investment (ROI). In addition, Carter et al.'s (2003) and Gordini and Rancati's (2017) findings reveal a positive relationship between the presence of women on the board and firm value as measured by TQ.

In an American national survey, firms containing both men and women on their boards were found to enjoy higher sales, higher profit margins and consequently higher revenues (Adams & Ferreira, 2009). A firm's culture is mirrored by the link between GD and FP (Julizaerma & Sori, 2012). A diverse workforce has a more significant breadth of views and hence it appears to be well placed to deal with any given circumstance (Carter et al., 2007). Carter et al.'s (2007) conclusion seems to contradict his earlier view that there is a positive relationship between GD and FP. Pucheta-Martínez and Gallego-Álvarez (2019) and Robbiano (2019) make clear that a greater number of women on the board leads to an improvement in FP. According to Liu et al. (2014), in the ideal setting and particularly in managerial positions, GD encourages a firm to perform better. Furthermore, because they listen more than their male counterparts, women are

useful in solving problems. Consequently, GD on the board improves FP and makes a firm more successful (Martín-Ugedo & Minguez-Vera, 2014).

It is noteworthy that women establish good relationship networks and create more business-to-business links (Lückerath-Rovers, 2013). In addition, women are good at mentoring employees and boosting their career growth and consequently their job satisfaction, ultimately leading to improvements in FP (Wahid, 2018). Moreover, in order to validate the results of other studies, Das (2019) tested the impact of women on listed Indian firms' FP, revealing a positive and significant relationship because having more female board members improves these firms' social outreach and financial viability through ensuring that they meet their objectives.

On the other hand, GD and, more specifically, a more significant number of women on the board, can reduce FP arising from demographic demerits, interpersonal conflicts and their related effects (Jurkus et al., 2011). GD provides opportunities for more battles because of divergent views and stereotypical behaviours; consequently, conflicts cause a lack of cohesion between members of a group (Ferreira, 2015). When a conflict exists within a team, the firm's operational functions become compromised, resulting in poor performance (Low et al., 2015). Conflicts can slow down the firm's decision-making process and thus have an adverse effect on FP (Dwyer et al., 2003). According to Dutta and Bose (2007), stereotypical views, especially in countries where men are perceived to be at the top in every setting, affect cooperation between team members. However, Croson and Gneezy's (2009) findings show that because of their emotions, characteristics and overconfidence and poorer performance in both negotiations and purely competitive situations, women are at greater risk than men (Croson & Gneezy, 2009). In addition, Rose (2007) asserts that although women have a very high representation on the boards of American and British firms, they are very poorly

represented on the boards of Danish firms. Moreover, Jaffar et al. (2019) have examined the relationship between GD and FP measured by ROA in Bahrain, finding a negative relationship between them, contradictory with their expectations. However, other studies have found no significant relationship between GD and FP (Carter et al., 2010; Rose, 2007).

Age diversity (AD) and firm performance (FP)

The relationship between AD and FP has suffered from an absence of detailed analysis. Moreover, owing to shared experiences and acquired skills, AD is an essential factor of FP. In addition, young board members include female directors because, compared to older board directors, they are more able to think in new and creative ways (Carter et al., 2003). According to Choi and Rainey (2010), there is a positive relationship in American firms between AD and FP. From using data relating to 205 European listed companies in 2009, Ferrero-Ferrero, Fernández-Izquierdo and Muñoz-Torres (2015) assert that there is a positive association between boards' AD and FP. They explain that having people on the board from different generations results in AD that provides firms with rich knowledge, information and experience. For example, the older directors have wisdom and experience, the middle group of directors are more proactive in managing the firm and the younger directors are more proactive in providing ideas and plans for the firm's future. Moreover, Darmadi's (2011) findings show a similarly positive result in the relationship between young directors a firm's increased FP. According to Pitts (2005), a firm with a high degree of AD will probably include employees with a greater amount of confidence because they believe that they have opportunities to grow their careers within its ranks. Interestingly, Dagsson and Larsson (2011) demonstrate that, while there is a positive relationship in Swedish firms between AD and ROA, there is a negative relationship between AD and TQ, because ROA measures accounting performance but not the value of market performance.

However, Tanikawa, Kim and Jung (2017) demonstrate that older board members are more motivated than younger directors. Additionally, most of the directors of Malaysian firms are between 50 and 59 years of age and the average age is 58 years. Consequently, there is a lack of AD on such firms' boards (Abdullah et al., 2017). Furthermore, Kunze et al. (2013) and Shahata et al. (2017) have shown that there is a negative relationship between AD and FP. According to Diepen's (2015) findings, there is a negative correlation between AD and FP with respect to firms whose directors are between 41 to 50 years of age. From examining German firms, Abdullah et al.'s (2017), Ali and Kulik's (2014) and Ali, Ng and Kulik's (2014) findings all indicated that, as measured by ROA, there is a negative relationship between AD and FP. Their findings show that, because of choosing the board's age according to the age discrimination environment within firms, there is a negative correlation between AD and FP (Kunze, Boehm, & Bruch, 2011). In the UK, Shehata et al.'s (2017) findings show that there is a significant negative relationship between AD and FP. Eulerich, Velte and Van's (2014) findings reveal that there is a negative correlation between AD and FP and that considerable AD may reduce a board's decision-making process and communication between board members. On the other hand, Tanikawa et al.'s (2017) findings show that when the board members are relatively older, there is a significant negative relationship between AD and ROE, but this is not the case between AD and ROA. From examining the relationship between AD and FP in all Swedish firms listed between 2011 and 2015, Petersson and Wallin's (2017) findings show that there is a significant negative relationship between AD and FP. This means that the lower the AD of Swedish listed firms' boards, the greater the FP.

Furthermore, Diepen's (2015) findings show that in Dutch firms, there is no relationship between the AD on the board and FP. Rahman et al.'s (2015) findings show that if there is some AD within the board, it can improve FP, overcome the board's problems and encourage

creative thinking. On the other hand, similarly aged board members reduce FP. In addition, from examining Australian firms, Carter et al., (2003); Ali and Kulik's (2014) findings show that AD has no significant effect on employee productivity and various conclusions can be made about the impact of AD on FP.

National diversity (ND) and firm performance (FP)

In addition, from the literature, there are few studies about ND and FP. ND affects a firm's economic performance in both a positive and negative manner. Authors such as Alesina and La Ferrara (2005), Diepen (2015), Hart (2004) and Kaczmarek (2009) have examined the relationship between ND and FP by focusing solely on employees' perceptions and investigating only one country, revealing a positive correlation between ND and FP. Furthermore, Harjoto et al.'s (2015) conclusions show that internationally diverse boards of management are more likely to perform better because of their diverse knowledge and perspectives and members' various experiences in problem solving. Moreover, Erhardt et al.'s (2003) findings show that in the USA, there is a positive relationship between ND and ROA and between ND and ROI. This means that by using their experiences and knowledge, ethnically diverse board members can affect FP. Similarly, Delis et al.'s (2016) findings show that an internationally diverse BOD is more likely to have a positive influence on FP, because employees seek to work diligently within the parameters of international standards. In addition, Diepen's (2015) and Hart's (2004) findings reveal that immigrant entrepreneurs have a negative effect on FP, especially when only international board directors occupy the top management positions. Such a firm creates an environment whereby all the top managers are of the same nationality and the employees have little or no confidence about working in the firm. Kaczmarek's (2009) findings show that when a firm's directors work with internationally diverse subordinate staff, they tend to have faith in the firm's policies, leading to improved FP.

In addition, based on his study's findings, Darmadi (2011) argues that international diversity does not influence either a firm's marketing performance as measured by TQ, or as an accounting measure using ROA, which means that ND does not affect FP.

Relevant studies in Kuwait

To date, no study has discussed the relationship between gender, age, ND and EM in Kuwait. However, Algharaballi and Albuloushi (2008) have found that Kuwaiti listed firms use EM for their interest. Elkalla (2017) has studied the country-level and firm-specific determinants of the accrual-based EM of 802 non-financial firms listed on the stock markets of Kuwait, Saudi Arabia, Oman, Bahrain, Qatar, the UAE, Egypt, Morocco, Tunisia and Jordan from 1996 to 2014. He has confirmed that firms use EM in the MENA region, leaning towards being opportunistic rather than efficient (Elkalla, 2017). Moreover, Algharabali (2013) has found that non-listed companies often manipulate their EM. Conversely, the same study did not find any evidence regarding the use of EM in the listing company. Nevertheless, there is evidence from a Kuwaiti study of 415 observations of Kuwaiti listed firms between 1995 and 2006 that firms manipulated their earnings to maximise their interests and provide shareholders with incentives to increase their investments (Algharaballi & Albuloushi, 2008).

With regard to the situation in Kuwait, Alkazemi and Jackson (2019), Alowaihan (2004) and Sanad and Tessler (1988) have found that although Kuwaiti women are on average better educated than men, they do not have as much experience in the workplace. The Central Statistical Bureau (2020) has confirmed that from 2009 until 2019, women were more educated than men at the University of Kuwait, demonstrated by the fact that 76.5% of master's students in 2019 were female (Central Statistical Bureau, 2020). Furthermore, Alowaihan's (2004) findings show no significant differences in the number of men and women on the boards of

family firms. There are several reasons for this, including the fact that married women have more domestic responsibilities than men, particularly if they are caring for children (Adel & Alqatan, 2019). From examining 121 listed Kuwaiti firms in the period from 2009 to 2011, Alshammari and Alsaidi's (2014) findings show that because ROA is an accounting measure and TQ is a market measure, Kuwaiti women directors have a negative relationship with ROA and an insignificant relationship with TQ. Furthermore, by using 23 Kuwaiti non-financial firms listed on Boursa Kuwait between 2012 and 2014 and 69 final observations collected from the Thomson Reuters database, Issa et al. (2019) have tested the relationship between GD and TQ, revealing a positive relationship.

3.2.3 Influence of other characteristics on EM and FP

This section reviews the literature related to the control variables used in the regression models when examining the impact of diversity on EM and FP. With the exception of FP, which excludes the firm's loss variable, both models use the same control variables.

3.2.3.1 Company size

The findings of most previous studies (Gonzalez et al., 2014; Gull et al., 2018; Ittonen et al., 2013; Lakhal et al., 2015; Omoye et al., 2014; Susanto, 2016; Zalata et al., 2018) show a relationship between firm size and EM. For instance, Ittonen et al.'s (2013) findings reveal a negative relationship between firm size and EM that is significant at the 1% level. Meek et al.'s (2007), Peni and Vahamaa's (2010), Shu et al.'s (2015) and Teshima and Shuto's (2008) findings confirm that because larger firms do not give their managers the same opportunities to manipulate earnings, there is a negative relationship between firm size and EM managers to

manipulate earnings. However, Moses (1987) adds that larger firms have more EM activities. Ahmad et al. (2006) and Kim et al. (2003) state that larger firms often have sturdier internal control systems and may have more experienced internal auditors than smaller firms. Consequently, an efficient internal control system helps with the preparation of consistent financial data for the public and probably minimises the management's capacity to influence earnings. Alsaeed's (2006), Bassiouny's (2016) and Chung et al.'s (2005) findings show that in Egypt between 2007 and 2011, there was an insignificant association between firm size and EM.

Furthermore, the findings of studies by Abdul Rahman and Ali (2006), Chen et al. (2007), Klein (2002) and Xie et al. (2003), show that compared to small firms, large firms gives their managers greater opportunities to manipulate their earnings. In addition, from their study of the Pakistani textile industry, Ali et al.'s (2015) findings show that there is a significant positive relationship between firm size and EM.

The findings of many other studies (Alshamari & Alsaidi, 2014; Campbell & Minguez-Vera, 2008; Carter et al., 2010; Erhardt et al., 2003; Gordini & Rancati, 2017; Jansen, 1986; Rose, 2007) also present a relationship between firm size and FP. In this regard, Alshamari and Alsaidi's (2014) findings show a negative correlation between firm size and FP at the 1% level of significance. These findings confirm those of Maury and Pajuste (2005) that a young firm that improves its margin of profitability can become larger than a mature firm's margin of profitability. In addition, Jansen's (1986), Lee's (2009) and Yammeesri and Kanthi Herath's (2010) findings confirm that there is a positive relationship between firm size and FP. Moreover, Short and Keasey's (1999) findings show that smaller firms have less funding than larger firms because the latter avoid financial constraint situations and are therefore able to

invest in profitable businesses. Many studies (Carter et al., 2010; Chbib, 2015; Ittonen et al., 2013; Rose, 2007; Short & Keasey, 1999) have used the logarithm of total assets to measure firm size. This can also be measured by the firm's number of employees, but such data are not always available. Therefore, firm size, referred to in this study as CSZ, is the term most commonly used in the literature.

3.2.3.2 Company age

Similar to firm size and EM, the findings of most previous studies reveal a negative relationship between firm age and EM. Alsaeed's (2006) findings also show evidence that the older the firm, the greater the earnings quality. Khanh and Nguyen's (2018) findings show that most firms, which have long histories and vast experience, expect to have more reputation risk. In addition, Kim et al.'s (2003) findings show that compared with younger firms, older firms have better internal control systems. Moreover, Akhtaruddin's (2005) findings show that long-established firms take more care about their reputations and avoid performing EM. Having selected the 50 most active companies on the Egyptian stock market between 2007 and 2011 to examine the relationship between firm age and EM, Bassiouny's (2016) findings show that there is no relationship between firm age and EM.

On the other hand, the argument about firm age and EM is similar to that between firm size and FP in that there is a negative relationship between them. This is because younger firms perform better than older firms (Begley & Boyd, 1985; Dunne & Hughes, 1994; Maury & Pajuste, 2005). However, having examined the association between firm age and FP in Spain from 1998 to 2006, Coad, Segarra and Teruel's (2013) findings show that there is a positive relationship between them. They also report evidence that older firms continue to be

productive, leading to higher profits, fewer debts and increased FP. By contrast, having examined 400 firms listed on Iran's Tehran Stock Market between 2006 and 2010, Pouraghajan et al.'s (2013) findings revealed no relationship between firm age and FP because the senior firms did not influence FP. Company age is measured by the number of years of business operations (Chavis et al., 2010) and is referred to in this study as CA.

2.2.3.3 Family firms

Prencipe, Markarian and Pozza (2008) postulate that there is a positive association between family firms and EM. Family firms are driven to manage earnings for leverage-associated and debt-covenant motives. However, Anderson and Reeb's (2003) findings indicate a negative relationship between them by asserting that family firms are considerably less likely to manage their earnings. Further, Yang's (2010) findings show that the greater the extent of the family's ownership, the more likely there is to be EM.

Bhatt and Bhattacharya (2017) have investigated the effect of family firms on the association between board characteristics and FP in Indian firms. Their results show that, when compared to non-family firms, the board structure of family firms has a negative impact on FP. From their examination of the relationship between family firms and FP in the USA, Anderson and Reeb's (2003) findings show that family firms are better than non-family firms. Further, from his examination of Japanese family firms between 1990 and 1998, Saito's (2008) findings indicate that family firms have superior FP to that of non-family firms, revealing a positive relationship. In addition, family firms measured by the founder of the family member (Ebrahim & Abdel Fattah, 2015), not by the family ownership due to such data being unavailable, this is referred to in this study as FF.

3.2.3.4 Board size

According to Beasley (1996), the larger the board size, the lower the EM. Obigbemi et al. (2016) claim there is a negative and significant relationship between EM and board size, composition and gender. Daghsni, Zouhayer and Mbarek's (2016) findings show a negative correlation between board size and EM. Furthermore, from their examination of 110 listed American firms between 1992 and 1996 using the S&P 500 Index, Xie et al.'s (2003) findings show that although large board size increases earnings quality, there is a negative relationship between board size and EM. However, from their examination of 113 Singaporean and 113 Malaysian firms in 2000, Bradbury et al.'s (2006) findings show no relationship between board size and EM.

From their examination of the link between board size and FP, Kalsie and Shrivastav's (2016) and Xie et al.'s (2003) findings show that board size has a significant and positive effect on FP. However, Dalton et al. (1999) notes that a smaller board size can help avoid the problem and make BODs more focused and active. Contrary to other studies' results, from his investigation of the connection between board size and Turkish firms' FP, Topak's (2011) findings show that there is no relationship between board size and FP in Turkey. Further, from their investigation of a sample of Nigerian and Ghanaian firms, Badu and Appiah's (2017) findings show that FP is enhanced by optimal board size, successful advice and control and disciplined management. Thus, there is a positive relationship between board size and FP. Additionally, from their study of the association between board size and financial and reputational corporate performance in Colombia, Orozco, Vargas and Galindo-Dorado's (2018) findings show that large boards are related to greater corporate reputations and lower FP. Consequently, there is a negative relationship between board size and FP. In this study,

board size is measured by the total number of directors and is referred to as BSZ (Adams & Ferreira, 2009; Zalata et al., 2018).

3.2.3.5 Board independence

Based on information regarding industrial companies listed on the Amman Stock Exchange, Idris, Siam and Nassar (2018) conclude that there is a negative relationship between board independence and EM. They assert that a greater proportion of board independence is linked to more efficient control, minimising EM as a result. Moreover, from studying the same relationship in Hong Kong, Jaggi, Leung and Gul's (2009) findings show a negative relationship between board independence and EM. They explain that the larger the number of independent directors on the board, the more effective the monitoring, leading to a reduction in the manipulation of EM. Furthermore, by using a unique data set of Egyptian firms to analyse the relationship between board independence, audit quality and EM, Khalil and Ozkan's (2016) findings dispute the idea that a greater percentage of non-executive members on the board is related to less EM. Their findings show that board independence's impact on EM practices depends on the ownership levels held by the executive directors and major shareholders and the composition of the audit committee.

According to Sanda's (2011) findings, there is a positive relationship between board independence and FP. In addition, according to their definition that, as a collective body, a BOD acts in the best interests of shareholders, Fuzi Halim and Julizaerma's (2016) findings show that firms with the largest number of independent directors have better FP. Similarly, from their investigation as to whether or not board independence influences Bangladeshi listed companies' FP, Rashid's (2018) results show that there is no such relationship. Pan, Huang and Gopal's (2016) findings evidence that firms with more independent board members

perform better than firms with fewer independent board directors. This study measures board independence as the proportion of independent directors to the total number of board members, referred to in this study as BID (Adams & Ferreira, 2009; Zalata et al., 2018).

3.2.3.6 Role duality

Daghsni et al.'s (2016) findings show that the duality of the roles of the board chairman and the CEO has a positive influence on EM. This suggests that the duality of the former's role and the latter's function helps to increase a firm's EM because the CEO can minimise the board's efficiency and create a conflict between the board and the management, which in turn can reduce EM. According to Kamarudin, Ismail and Samsuddin (2012), the dual role minimises the efficiency of autonomous audit teams, reducing the effectiveness of monitoring financial statements. Additionally, being the chairman, a CEO has excessive power over the board's choices, the observation role of independent audit boards to ensure the high quality of earnings in financial reports may be rendered ineffective. Thus, role duality is negatively related to EM. Furthermore, several studies (Abdul Rahman & Ali, 2006; Davidson et al., 2005; Kao and Chen, 2004; Xie et al., 2003) have found no relationship between role duality and EM.

By using a sample of listed firms in Turkey, Dogan et al. (2013) have studied the effect of CEO duality on FP, finding a negative relationship between them. Furthermore, they found no significant association between CEO duality and FP. From their investigation of such an association and the moderating impact of the element of family control in Hong Kong, Yan Lam and Kam Lee's (2008) findings show no relationship between CEO duality and FP. Moreover, Elsayed's (2007) findings show that CEO duality does not affect Egyptian listed firms' performance. However, from their examination of Malaysian firms, Abdulrahman and Haniffa's (2005) findings show that, while there is no relationship between CEO role duality

and FP, the CEO reduces the effectiveness of the board's mentoring and the FP in a company. This study measures role duality by the director holding the CEO position, referred to here as DUAL (Ebrahim & Abdel Fattah, 2015; Gull et al., 2018).

3.2.3.7 Leverage

As stated by Ali et al. (2008), Defond and Jiambalvo (1994), Guna and Herawaty (2010), Jiang et al. (2008) and Ma'ruf (2006), management is likely to perform EM practices if there is a high leverage ratio. Defond and Jiambalvo (1994) have reported evidence that the greater the firm's indebtedness, the lower the manipulation of EM. Bassiouny (2016), Burgstahler and Dichev (1997) and DeGeorge, Patel and Zechhauser (1999) point out that investors are interested in positive earnings. Thus, firms with higher leverage ratios are expected to be more motivated to manage their earnings as they should give their financiers good outcomes from refinancing their firms' debts. Matsumoto (2002) states that managers aim for earnings surprises; moreover, in order to reach the analysts' goals, this can be done by EM. Therefore, there is a positive relationship between leverage and EM. However, many studies (Chung et al., 2002; Paesnell et al., 2000; Yang, Lai, & Tan, 2008) have found a negative relationship between leverage and EM. This finding is supported by Park and Shin's (2004) examination of 469 Canadian firms between 1991 and 1997.

Ilyukhin (2015) has studied the link between financial leverage and FP for large Russian firms, using the ratio of firm debt to total assets as a measure of financial leverage and ROA, operating margin and ROE as measures of financial performance. His findings show that financial leverage has a negative effect on Russian FP. Furthermore, Ibhagui and Olokoyo's (2018) findings show that, while there is a positive relationship between leverage and FP, this is subject to the firm's size, with smaller firms having higher leverages. Moreover, Hutten (2014)

have found a positive relationship between leverage and FP. By contrast, from studying the impact of financial leverage on Pakistani firms' FP, Javed et al. (2015) show a negative relationship between them. This study measures leverage by the firm's total debt divided by its total assets; this is referred to in the present study as L (Gull et al., 2018; Ittonen et al., 2013).

3.2.3.8 Liquidity

Riahi, Lamiri and Arab (2013) have demonstrated the presence of a significant positive association between EM and market liquidity. Furthermore, Huang, Lao and McPhee's (2017) findings show that stock liquidity increases accrual-based EM and that liquidity affects EM through magnifying the effects of equity compensation and takeover pressure. From studying the same relationship in America between 1999 and 2013, Gombola et al.'s (2016) findings also show a negative relationship between equity compensation and takeover pressure and a positive relationship between liquidity and EM. Gombola et al.'s (2016) findings show that banks with less liquidity do not use EM. On the other hand, from their examination of banks listed on the New York Stock Exchange from 1996 to 2001, Ascioglu, Hegde, Krishnan and McDermott's (2012) findings a negative association between liquidity and EM in the listed bank. Consequently, they conclude that smaller market liquidity is related to firms with greater EM.

Through their investigations, Holmstrom and Tirole (1993), Khanna and Sonti (2004), Sanghani (2014) and Subrahmanyam and Titman (2001) have established that liquidity (current ratio) has a positive effect on firms' financial performance. Moreover, they conclude that this is the case when there is liquidity that encourages investors to buy a firm's shares and that this is additionally useful for the firm's stakeholders. Furthermore, from their investigation of the impact of liquidity on the Turkish retail industry's financial performance, Demirgüneş' (2016)

findings show a significant positive relationship between liquidity and financial performance. Similarly, from examining the relationship between liquidity and FP in the MENA region, Fang et al.'s (2009) and Farooq and Bouaich's (2012) findings indicate a positive and significant relationship between liquidity and FP. By contrast, Baker and Stein's (2004) and Goldstein and Guembel's (2008) findings show a negative correlation between them as measured by TQ. This study measures the current ratio of liquidity as a proxy of risk, referred to in this study as LQ (Elshandidy, Fraser, & Hussainey 2013).

3.2.3.9 Sales growth

Firms with high rates of growth may not manipulate incomes to report either positive or shifts in incomes. By contrast, those with low rates of growth may either manipulate or alter their earnings through EM. Myers and Skiner's (2000) findings show a positive relationship between sales growth and EM and that high-growth firms can bias up their earnings after forming either a continuous sales growth or an earnings trend. In a reporting model, there is a connection between the level of managed earnings and the firm's earnings performance as well as its anticipated growth. In this respect, the firm's management manipulates its earnings in order to influence the company's equity valuation, whereas the share price suffers when the sum of the managed incomes increases (Lee, Li, & Yue, 2006).

Myers and Skiner (2000) have found a positive relationship between sales growth and firm management. Lee et al. (2006) have established that higher performance firms often over-report their earnings as in their study, growth and earnings performance overtook upsurges in price sensitivity. From studying the relationship between sales growth and FP from 1988 to 1955 using the COMPUSTAT database, Brush, Bromiley and Hendricks (2000) have found that the former increases the latter. These researchers also noted that strong CG practices can positively

influence sales growth and FP. Similarly, from studying the relationship between the 2004 sales growth and FP of 116 Finnish firms collected from Thomson Financial Database, Bhattacharya and Graham's (2007) findings show a positive relationship between sales growth and FP as measured by TQ, with the greater the sales growth, the higher the firm value. The present study measures the percentage change in aggregate sales, referred to here as SG (Ittonen et al., 2013; Zalata et al., 2018).

3.2.3.10 Cash flow

According to Alzoubi (2016), Chung et al. (2005) and Peasnell et al. (2005), higher cash flows from a firm's operations lead to higher levels of EM. However, Chen et al. (2007) and Gul et al. (2009) have identified a negative association between cash flow and EM. Nekhili et al. (2016) have examined the controlling impact of ownership characteristics and firm CG practices in reducing EM activities in a free cash flow situation, indicating leaders' current unscrupulous activities in terms of free cash flows. In particular, directors were found to be engaged in EM activities, thereby increasing their reported earnings. These findings have been confirmed by Cardoso et al. (2014), who show that firms with perceptions of low growth and excessive free cash flows are more likely to manage their earnings to augment profitability.

According to Alzoubi (2016), Chung et al. (2005) and Peasnell et al. (2005), there is a positive relationship between cash flow and FP due to higher cash flows from a firm's operations, leading to a higher level of FP. Studying the same relationship in Nigerian listed banks, Ogbonnaya et al.'s (2016) findings show a positive association between cash flow and FP. However, through their investigations, Chen et al. (2007) and Gul et al. (2009) have established a negative association between cash flows and FP. In addition, Cardoso et al. (2014) and Nekhili et al. (2016) have found that firms with low growth perceptions and excessive cash

flow are more likely to carry out EM in order to augment their profitability, leading to better FP. Moreover, from their examination of 370 firms listed on Turkey's Boursa Istanbul from 2009 to 2015, Kadioglu, Kilic and Yilmaz's (2017) findings show a negative relationship between cash flow and FP as measured by TQ. In addition, Ali et al. (2013), Ashitam (2005), Nwanyanwu (2015) and Zhou et al. (2012) have found a similar negative relationship from their investigations of firms in China, Iran and Nigeria. The present study measures cash flow from the firm's operations, referred to here as CF (Ittonen et al., 2013; Zalata et al., 2018).

3.2.3.11 Dividends per share

Kasanen et al.'s (1996) findings show a positive relationship between dividend-based target earnings and EM. From inspecting the association between price earnings as an EM proxy and dividend payout ratio, Ahmed, Advani and Kanwal's (2018) findings demonstrate that the dividend payout ratio and price-earnings ratio exhibit a negative relationship and positive convexity and vice versa. Therefore, according to this study, there is a negative correlation between dividend per share and EM. If the dividend per share ratio increases, EM reduces. Furthermore, Elshandidy et al. (2013) and Mohammad et al. (2001) have found a negative relationship between dividends per share and EM.

According to Kasanen et al. (1996), there is a positive relationship between dividend-based target earnings and FP. Kadioglu et al.'s (2017) study of this relationship in terms of Turkish firms supports this finding, as does a similar Nigerian study from 2006 to 2012. Moreover, from their investigation of 42 firms listed on the Bahrain Stock Exchange from 2007 to 2011, Khamis, Elalo and Hamdan's (2015) findings show a significant positive relationship between dividend-based target earnings and FP when measuring FP by TQ and a negative relationship when using ROA. Furthermore, Elshandidy et al.'s (2013) and Mohammad et al.'s (2001)

findings show a negative correlation between dividends per share and FP. The present study measures the dividend per share based on the actual number of shares, referred to here as DPS (Elshandidy et al., 2013; Mohammad et al., 2011).

3.2.3.12 Firm losses

Degiannakis et al. (2017) state that firms try to avoid losses in order to enhance their EM. Given that there is a negative relationship between a firm's losses and EM, loss-making firms thus experience reduced EM. Furthermore from studying EM and the valuation of underperforming loss-making firms, Comiran, Fedyk and Ha (2016) have identified a negative relationship between EM and a firm's losses. Moreover, Burgstahler and Dichev (1997) have demonstrated that firms manage their reported earnings to avoid reductions in and loss of earnings. Therefore, loss-making firms manage their earnings better and, consequently, there is a positive relationship between a firm's losses and EM. This is measured by a dummy variable that takes a value of 1 if the firm's net income is negative and 0 otherwise. The present study also adds dummies to control for the possible effects of year and industry type. These measurements are referred to here as FL.

3.3 Description of research gaps

Having reviewed the existing literature, it is evident that there is a lack of significant research into BD and EM, BD and FP and ND in GCC countries, including in Kuwait specifically. The lack of studies since the issuance of the KCGC is also noteworthy. Moreover, there have been few studies pertaining to AD and EM. Furthermore, few studies have measured AD in different ways. More generally, there are few references in the literature regarding BD, EM and FP in Kuwait.

More specifically, there are few Kuwaiti studies with large samples and covering periods of time since the issuance of the KCGC. In addition, few Kuwaiti studies have used both the modified Jones model and the Kothari model to measure EM and FP in Kuwait. finally, few studies have used a new control variable when considering BD and EM in Kuwait.

3.4 Importance of this research study's contribution to the literature

There is a growing body of literature on BD. This study contributes to this literature by investigating in Kuwait. It does so by considering, first, the effects of GD, AD and ND on boards and, second, their impact on the EM and FP of non-financial firms listed on Boursa Kuwait. In particular, this study contributes to the existing literature on GD by demonstrating the vital role played by women, young people and foreign directors on boards, thereby improving their monitoring role on EM and FP in Kuwait.

The impact of gender, age and ND on both EM and FP has primarily been examined in the case of developed countries (Adams & Ferreira, 2009; Carter et al., 2003, 2007; Erhardt et al., 2003; Gordini & Rancati, 2017; Gull et al., 2018; Lausten, 2002; Musyoka et al., 2015; Nyoka, 2018; Peni & Vahamaa, 2010; Rose 2007). By contrast, this study explores this issue in Kuwait after the country implemented the KCGC in June 2013, through analysing the impact of GD, AD and ND on EM and FP. In conducting this analysis, different measures are used.

As shown in Figure 6 and Table 1, this study uses agency and resource dependence and social capital theories to support its hypotheses and meet its research aim and objectives. Agency and resource dependence theories have been used by numerous authors to support their hypotheses, such as Abdullah et al. (2017), Arioglu (2018), Choi and Rainey (2010), Gull et al. (2018), Jurkus et al. (2011), Low et al. (2015) and Lückerath-Rovers (2013). However, in examining

the impact of BD on FP in Indonesia, Darmadi's (2011) study is alone in using social capital theory to support its hypotheses.

Finally, most previous studies (e.g. Adams & Ferreira, 2009; Alshamari & Alsaidi, 2014; Campbell & Minguez-Vera, 2008; Carter et al., 2010; Erhardt et al., 2003; Gonzalez et al., 2014; Gordini & Rancati, 2017; Gull et al., 2018; Ittonen et al., 2013; Lakhal et al., 2015; Omoye et al., 2014; Peni & Vahamaa, 2010; Rose, 2007; Susanto, 2016; Zalata et al., 2018) have used the exact same model and identical control variables for their methodologies. However, in order to establish their effects on EM and FP, this study uses new control variables such as firm age, family firm, liquidity, dividends per share, sales growth and cash flow (for further details, see section 3.2.3). Moreover, the findings of many previous studies, such as by Anderson and Reeb (2003), Bhatt and Bhattacharya (2017), Ebrahim and Abdel Fattah (2015), Markarian and Pozza (2008), Saito (2008) and Yang (2010) have confirmed the effects of a family firm on both EM and FP. In the context of GCC countries and, more specifically, Kuwait, this study includes among its control variables, a new measure of the founding family members of a family firm, following Ebrahim and Abdel Fattah (2015). It is also noteworthy that this study uses the largest sample of non-financial firms listed on Boursa Kuwait. Moreover, it covers the longest period following the implementation of the KCGC in June 2013.

3.5 Summary

In summary, this chapter began by setting out the background and the context of this study. Next, it reviewed similar empirical research studies regarding the influence and impact of other characteristics on EM and FP, before describing the remaining gaps in the existing literature. Finally, it described the importance of this study's contribution to the literature.

The next chapter details the theoretical framework and the development of the hypotheses used in this study.

4.0 Chapter Four: Theoretical Framework and Development of the Hypotheses

4.1 Introduction

Previous research studies have used multiple theories, such as resource dependence, human capital, social capital, busyness, signalling, behavioural and agency theories, in order to investigate the association between BD and earnings management and the association between BD and firm performance (FP). These studies have additionally investigated the impact of corporate governance codes (CGCs). As shown in Table 1, 76 research studies have used 37 theories. Moreover, as displayed in the chart below, 30 studies have used agency theory and 17 have used resource dependence theory. However, as shown in Table 1 and the chart below, 21 studies did not use any theory.

This research study uses agency and resource dependence theories, which are also those most commonly used in the literature (see Figure 6). Darmadi's study (2011) used social capital theory to explain the relationship between BD and FP, while Kim and Lim (2010) used it to study the relationship between the diversity of independent outside directors and company valuation. Nevertheless, few other studies have used this theory in Kuwait. This study uses social capital theory due to its relevance in explaining the relationship between BD and EM as well as the relationship between BD and FP.

Consequently, social capital theory makes several contributions to this research study. The operations of a business firm increase both corporation and conflict. Conflict can occur between the owners and the managers of an organisation when it comes to the division of the value that the firm has created as well as among the BOD while struggling for power and

control of rights within the firm. Thus, agency theory, resource dependence theory and social capital theory have been selected to analyse conflict and diversification, from three different perspectives. From the agency theory perspective, conflict among the directors of a company exists when managers at the headquarters are connected in an agency relationship with those in the operating division. However, while there is the incorporation of autonomous decision-making subsidiary managers, their decision-making autonomy may be categorised as discretion (Barroso-Castro et al., 2016). On the other hand, resource dependence theory posits that power is based on ruling over the resources that are considered to be strategic within an organisation and in most instances will be presented in terms of budget and the allocation of resources (Chisholm & Nielsen, 2010). The theory is externally focused and survival in a competitive environment will call for diversification in the BOD. Social capital theory seeks to create a connection between the internal and external environments of an organisation through diversifying the board by hiring females, young people and foreign directors. Thus, the three theories selected in the study provide a complementary framework within which we can understand the decision-making processes of diverse organisations based on gender, age, ND, those with resources and even the establishment of external connections.

There is an integrated relationship between social capital theory and resource dependence theory. Resource dependence theory aims to hire directors who are powerful and have a connection and a good resource better than letting other companies hire him or her. On the other hand, social capital theory focuses on the situation whereby a company needs to hire female, young and foreign directors who have good connections so that the firm can these for its own interests. Thus, we can stipulate that both theories focus on establishing a connection as the main aim for the firm to be competitive (Johnson et al., 2013). In resource dependence theory, the firm is seen as a pool of resources, including intangible resources, which are vital

to creating a competitive advantage (Chisholm & Nielsen, 2010). Hence, social capital theory will figure prominently among the intangible resources in strengthening the analytical powers of the view of resource dependence theory in relation to several issues. Some of these issues include the relative merits of the firm and markets as the organisational form and the interfirm networks for connections.

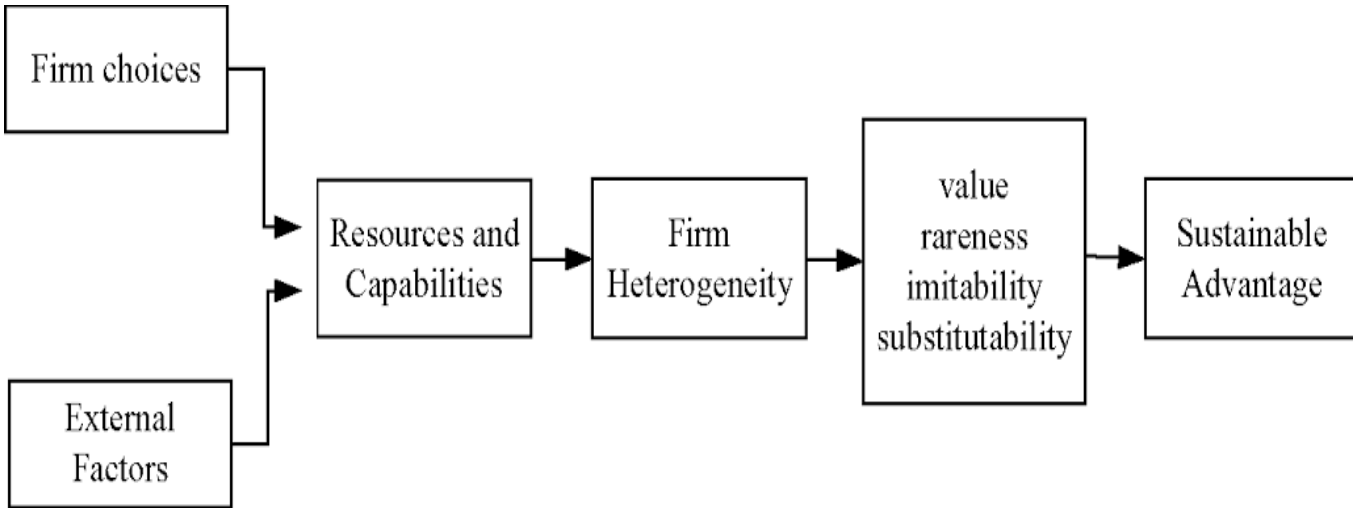

Figure 4: Theoretical framework

Source: Kostopoulos et al. (2002)

As shown in Figure 4, firm choices are guided by the perspectives offered by resource dependence theory and social capital theory. The two theories seek to create good connections with the external environment so that a firm can use these to its competitive advantage. These connections are developed through hiring powerful directors and/or female, young and foreign directors (Barroso-Castro et al., 2016). The resultant development of resources and capabilities will lead to the greater heterogeneity of the organisation and the creation of values within the management, in turn leading to sustainable growth (Kostopoulos et al., 2002).

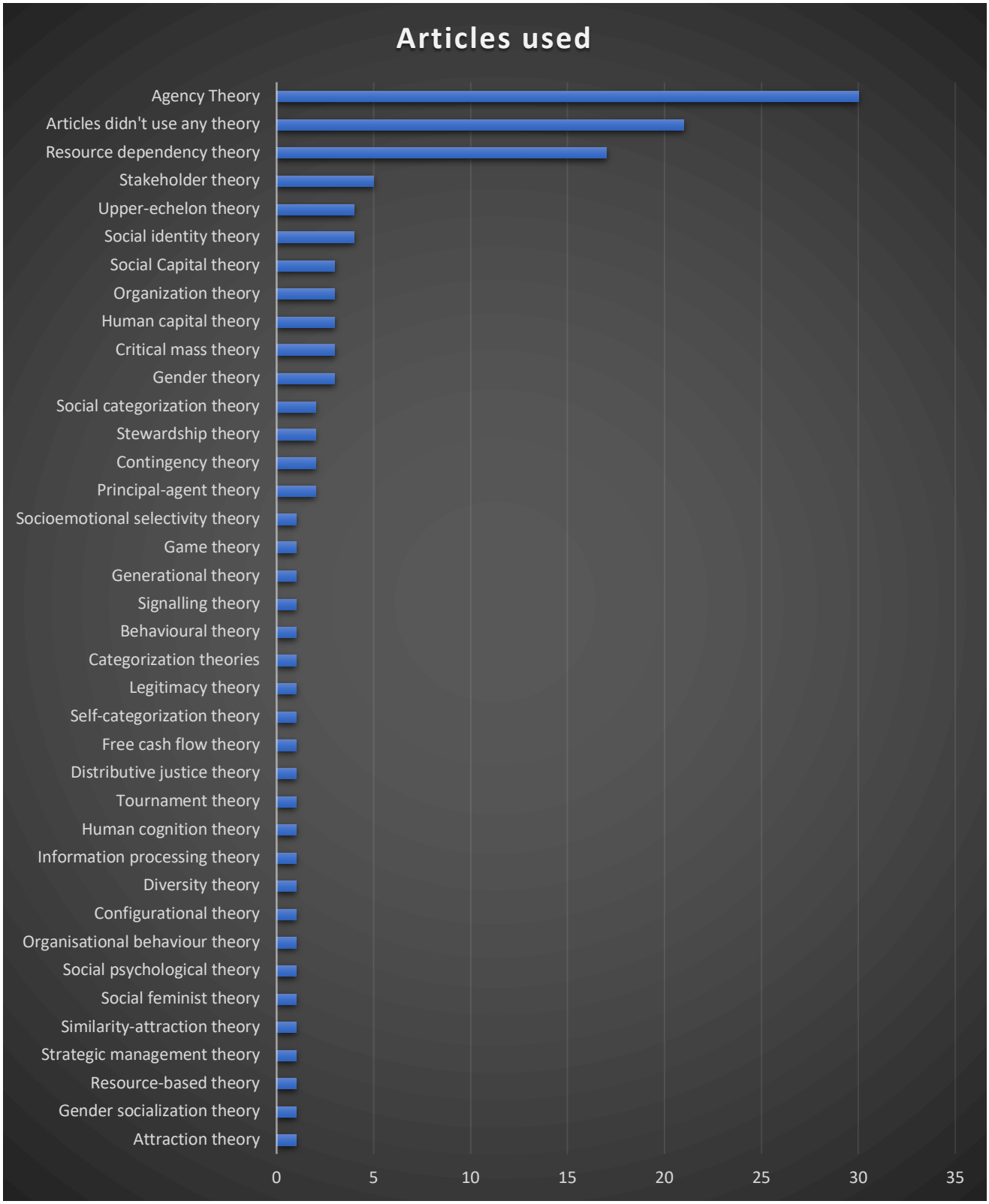

Figure 5: Theories used by previous research studies

Created by the author using Excel and Table 1

Table 1: Theories used by previous research studies

Theories	Authors
Agency theory	Alshammari & Alsaidi (2014), Arioglu (2018), Carter et al. (2003, 2010), Diepen (2015), Enofe et al. (2017), Erhardt et al. (2003), Eulerich, Velte, & Van (2014), Guedes et al. (2018), Gull et al. (2018), Hoffmann et al. (2018), Isa, & Farouk (2018), Jiraporn et al. (2008), Jurkus et al. (2011), Labelle et al. (2010), Lakhal et al. (2015), Low et al. (2015), Lückerath-Rovers (2013), Pucheta-Martínez & Gallego-Álvarez (2019), Rahman et al. (2015), Ramaswamy et al. (2001), Rauf et al. (2012), Robbiano (2019), Rose (2007), Sanda et al. (2006), Shehata et al. (2017), Susanto (2016), Triki Damak (2018), Zalata et al. (2018).
Resource dependency theory	Abdullah et al. (2017), Alesina & La Ferrara (2005) ; Ali & Kulik (2014), Arioglu (2018), Choi & Rainey (2010), Darmadi (2011), Diepen (2015), Eulerich et al. (2014), Gull et al. (2018), Kaplan et al. (2009), Kunze et al. (2011), Low et al. (2015), Lückerath-Rovers (2013), Martín-Ugedo & Minguez-Vera (2014), Pucheta-Martínez & Gallego-Álvarez (2019), Robbiano (2019).
Social identity theory	Al-Mamun et al. (2013), Arioglu (2018), Shehata et al. (2017), Wegge et al. (2008).
Human capital theory	Arioglu (2018), Darmadi (2011); Gull et al. (2018).
Attraction theory	Choi & Rainey (2010).
Social categorisation theory	Choi and Rainey (2010), Tanikawa et al. (2017).
Gender socialisation theory	Clikeman, Geiger, & O'Connell (2001).
Gender theory	Gavious, Segev, & Yosef (2012), Guedes et al. (2018), Triki Damak (2018).
Resource-based theory	Guedes et al. (2018).
Critical mass theory	Joecks et al. (2013), Lakhal et al. (2015), Lückerath-Rovers (2013).
Principal-agent theory	Eulerich et al. (2014), Lausten (2002).
Strategic management theory	Ramaswamy et al. (2001).
Organisation theory	Adams & Ferreira (2009), Ramaswamy et al. (2001), Srinidhi et al. (2011).
Stakeholder theory	Abdullah et al. (2017), Harjoto et al. (2015), Lückerath-Rovers (2013), Sanda et al. (2006), Shehata et al. (2017).
Similarity-attraction theory	Wegge et al. (2008).
Social feminist theory	Alowaihan (2004).
Social capital theory	Darmadi (2011), Johnson et al. (2013), Kim & Lim (2010).
Social psychological theory	Darmadi (2011).
Organisational behaviour theory	Darmadi (2011).
Upper echelons theory	Darmadi (2013), Dwyer et al. (2003), Ferrero-Ferrero et al. (2015), Tanikawa et al. (2017).
Contingency theory	Dwyer et al. (2003), Shehata et al. (2017).
Configurational theory	Dwyer et al. (2003).
Stewardship theory	Eulerich et al. (2014), Low et al. (2015).
Diversity theory	Ferrero-Ferrero et al. (2015).

Information processing theory	Ferrero-Ferrero et al. (2015).
Human cognition theory	Ferrero-Ferrero et al. (2015).
Tournament theory	Ferrero-Ferrero et al. (2015).
Distributive justice theory	Ferrero-Ferrero et al. (2015).
Free cash flow theory	Jurkus et al. (2011).
Self-categorisation theory	Kunze et al. (2011).
Categorisation theories	Martín-Ugedo & Minguez-Vera (2014).
Behavioural theory	Miller et al. (2009).
Signalling theory	Miller et al. (2009).
Generational theory	Petersson & Wallin (2017).
Game theory	Rose (2007).
Socioemotional selectivity theory	Tanikawa et al. (2017).
None	Algharaballi & Albuloushi (2008), Arun et al. (2015), Betz et al. (1989), Carter et al. (2007), Croson & Gneezy (2009), Ferreira (2015), Gordini & Rancati (2017), Hart (2004, 2014), Julizaerma & Sori (2012), Krishnan & Parsons (2008), Kunze et al. (2013), Kyaw et al. (2015), Liu et al. (2014), Na & Hong (2017), Omoye et al. (2014), Peni & Vahamaa (2010), Pitts (2005), Powell & Ansic (1997), Strobl, Rama, & Mishra (2016), Wahid (2018).
Total of the theories: 37	Studies: 76

4.2 Theories

4.2.1 Agency theory

Agency theory is one of the main theories. At this point, it is essential to explain this theory in order to gain an understanding of the context in which the present study is examining CG practices. According to Jensen and Meckling (1976), agency theory is a contract that describes the relationship between a firm's shareholders and its BOD. This means that the first party (the shareholders) has an agreement with the second party (the BOD) whereby the second party manages the firm's resources (both financial and human) and looks after the first party's interests. Hence, agency theory differentiates between ownership and control, whereby the shareholders own the firm while the BOD is responsible for managing the firm and therefore the shareholders' assets. Bhagat and Black (2002) explain how in an agency theory context, the managers-shareholders relationship presents a significant challenge, because it is linked with agency problems such as conflicts of interest and information asymmetry.

Consequently, agency theory problems arise from the separation between a firm's shareholders and its managers. The BOD, which sits between the shareholders and the managers, is responsible for solving problems and working on behalf of the former to protect their interests and wealth (Donaldson & Davis, 1991; Hermalin & Weisbach, 2003; Rowley, Shipilov, & Greve, 2017). Given that the shareholders are a mixture of men and women, the BOD should also consist of a mix of men and women to provide 'board diversity' and solve the agency theory problem. Furthermore, Das (2019) agrees that it is necessary to use agency theory through BD for firms' CG practices. Similarly, as supported by agency theory, GD has a negative relationship with EM. This means that GD reduces a firm's EM (Hoffmann et al.,

2018). Furthermore, Pucheta-Martínez and Gallego-Álvarez (2019) use agency theory to test the relationship between board characteristics, including GD and FP.

Agency theory (managers-shareholders):

Bhagat and Black (2002) explain how in an agency theory context, the managers-shareholders relationship constitutes a significant challenge because it is linked with agency problems. These problems range from information asymmetry to differentiating between ownership and control. According to Berle and Means (1930), when executive directors have a stake in the firm and the shareholders are inactive in monitoring those executives, there is a high risk that the former will direct the firm's assets towards their interests rather than those of the shareholders. Thus, the issue of conflicts of interest, which are derived from the separation between ownership and control, represent one of the major problems of the agency theory. Therefore, it is argued that an effective mechanism that can mitigate the problem of conflicts of interest is the alignment of shareholders' interests with the BOD's interests.

By using negative or positive mechanisms, a firm's shareholders can fix the issues arising from conflicts of interest in the differentiation of control and ownership (Guest, 2019). For instance, negative actions are portrayed by the dismissal of underperforming managers, shareholders' activism, a hostile takeover, or rejecting and challenging the BOD's proposals. Conversely, positive mechanisms involve the provision of directors' incentives as an approach to motivating them and integrating their interests with shareholders' interests. This is achieved through the provision of long- and short-term financial rewards as a way of linking the BOD's interests to shareholders' concerns. The provision of share ownership to managers mitigates the problem of conflicts of interest and therefore aligns managers' interests with shareholders' interests.

An additional problem that arises from the separation of ownership and control is the issue of information asymmetry. In such circumstances, one party (the directors) has an advantage over the other (shareholders), as they have more private information that they can use to benefit their interests. Information asymmetry is a sensitive concern to shareholders because it is prone to manipulation by the BOD for their gains: manipulation results in shareholders lacking information, thereby translating to poor economic decisions. Depken et al. (2005) argue that the agency problem can be reduced through external mechanisms such as regulation and legislation. This may be achieved through compulsory disclosures in financial reports and standardised reporting formats.

Moral hazard is another problem that arises from the separation of a firm's ownership and management. This arises when the management works in good faith on behalf of the firm's owners but makes some of its actions unobservable by the owners. Consequently, the owners come to be tied into contractual obligations such as risky projects/investments (Kolbjørnsrud, 2017). In such circumstances, the managers use their skills and knowledge in risky investments of which the owners are unaware. However, in the end they are the providers of capital to be invested and the ultimate bearers of the total risk. The probability of the success or failure of such projects/investments is dependent on the management's hidden actions. Therefore, it becomes very difficult for owners to measure the project's progressive performance.

Shareholders can address the management's moral hazard malpractices through the introduction of risk incentives, such as taking some proportion of ownership in all the firm's investments/projects. According to Ratnawati, Abdul-Hamid and Popoola (2016), through such a mechanism, the management is compelled to disclose all information concerning potential firm investment decisions to ensure that all key decision makers are well informed.

Therefore, by imposing some risk on the management, the owners' concerns are secured in most if not all of the firm's projects.

The separation of ownership and management additionally brings about the agency problem of the time horizon. The owners have no definite time within which they will own the business and have a long-term view regarding the firm's plans (Kim & Yi, 2006). They are the bearers of the firm's vision and mission statement, which defines why the company exists and how its existence will be maintained. On the other hand, the managers are the firm's employees' company and their stay is defined by the contractual agreement between them and the firm. In addition to contractual obligations, they have their own interests and ambitions, such as climbing the corporate ladder or increasing their bargaining power for the next job opportunity. These two-timing perspectives bring about a severe conflict of interest between the firm's owners and the managers. Consequently, there is a justifiable need to create a mechanism that harmonises the timing of these two perspectives (Kolbjørnsrud, 2017).

The time horizon problem also arises in terms of when cash flows are expected from an investment. The management is concerned with projects that will generate cash flows in the short term and, more especially, within the period when performance appraisals will be carried out. In this regard, the firm's management prefers projects that affect its remuneration in the shortest possible time. Nevertheless, Kim and Yi (2006) state that owners are more concerned with projects that result in long-term, sustainable cash flows. Most projects with such cash flows are long-term in nature and therefore require long-term capital commitments. These exert less pressure on owners and are hence preferable to them.

Similar to any other agency problem, the time horizon requires carefully considered mechanisms in order to ensure that it does not hinder the firm's vision and mission statement. One way to achieve this aim is to align contractual management obligations, such as employment contracts, to the firm's long-term plans (Panda & Leepsa, 2017). Another approach is to give the management shares in the firm and thereby turn them into the firm's owners. Accordingly, the two groups' interests are harmonised and thus the conflict between them is minimised. Moreover, the firm's value is increased because all decisions are aimed at maximising the owners' wealth.

BD, particularly in the form of gender, age and nationality, has a significant impact on FP. Terjesen, Couto and Francisco's (2016) multi-country study of BD has examined the effects of female BODs on FP. Their findings suggest that firms with more female directors report higher performance in terms of market and accounting measures. Moreover, their results suggest that, unless the board is gender-diversified, a non-diverse board is less likely to contribute towards improving the firm's performance. Consequently, their study rejects the hypothesis by confirming that there is a positive association between GD and FP.

Agency theory helps to highlight the inherent conflicts between the management's needs and the owner's interests. Terjesen et al. (2016) are among the authors to have used agency theory to explore whether or not the presence of female BODs affects FP. Their multi-country study of BD notes that the agency theoretical perspective suggests that board directors are less likely to have conflicts of interest with the firm. In turn, this ensures that they offer impartial judgments and provide greater integrity. However, although BODs both value and strive towards preserving their reputations, they are often required to represent the shareholders' interests and potentially take a stand against the firm's management (Adams et al. 2010).

Adams et al. (2010) have also used agency theory to examine BODs' role in firms' CG. These authors have developed a conceptual framework and survey showing that board of members' concerns for their reputations are more likely to cause them (agents) to act more in their principal's interests than standard approaches. For example, a strong as opposed to weak reputation presumably helps agents to obtain more seats on the board or retain existing ones. Consequently, diverse BODs bring their previous experience with them, enabling them to reinforce their firms' FP.

Agency theory is concerned with mitigating the problems within agency relationships caused by unaligned goals. Consequently, the theory can help address the challenges associated with the relationship between board and monitoring committees concerned with EM. According to Osma and Noguer (2007), board composition plays a significant role in determining the manipulation practices that should be enforced in EM. Further, Thiruvadi and Huang (2011) state that the presence of female on the audit committee increases negative discretionary accruals that reduce the firm's income. In turn, this constrains EM.

Thiruvadi and Huang's (2011) study contributes four aspects to the existing literature on GD and EM. First, their study leverages agency theory to highlight the effects of unaligned goals on agency relationships within an audit committee. For example, the authors provide new evidence that suggests that, when compared to men, women are more risk-averse and ethical. As a result, female directors on the audit committee are more likely to exhibit caution when determining EM (Huang, 2011). Second, Thiruvadi and Huang's (2011) findings highlight how sex-linked characteristics are transmitted and maintained across boards and organisational cultures. Third, their findings are crucial to developing a better understanding of BODs'

contemporary CG practices and their impact on EM and FP. Fourth, this study highlights the importance of BD in reinforcing FP.

4.2.2 Resource dependence theory

Resource dependence theory refers to the impact of resource acquisition on a firm's behaviour (Hillman et al., 2009). The theory is based on the principle that, in order to acquire resources, a firm must engage in transactions with other actors and firms in its environment (Pfeffer, 1982). In this regard, as explained by Pfeffer and Salancik (1978), through co-selecting the assets expected to survive, a firm's BOD serves as the link between the firm and its external factors. Therefore, the board serves as an essential instrument in bringing necessary components of ecological vulnerability into the firm. With regard to the board, resource dependence theory addresses how it facilitates access to valuable resources. As Rondoy et al. (2006) have explained, the theory emphasises a firm's ability to form links in order to secure access to critical resources, including capital, customers, suppliers and cooperative partners. Given that it is likely to have different insights, a more diverse board is deemed to have a greater ability to understand customers' needs. According to Thomsen and Conyon (2012) with respect to nationality, education, experience and background, BD means that the BOD has a considerable range of knowledge and skills. Accordingly, its members can offer more significant insights into markets, customers, employees and business opportunities. This is likely to lead to a better understanding of business conditions and hence better FP (Hillman et al., 2000). For instance, given that women offer more insights, a more gender-diverse BOD is better able to understand the needs of the entire market. Therefore, female representatives on the board are better able to understand women's requirements; the same is true of male representatives (Drees & Heugens, 2013 Hillman et al., 2007). The same can be said of AD, where having board members of different ages is essential for the firm being able to meet the

needs of all ages within the market. In addition, ND on the BOD brings different insights with regard to different nationalities. This is important in ensuring the firm's ability to acquire various resources that are vital to its success (Carter et al., 2010). Based on resource dependence theory, Pucheta-Martínez and Gallego-Álvarez (2019) claim that an effective CG system attracts aptitude and investment and thereby increases the firm's confidence.

Resource dependence theory is significant to this study because it has implications regarding the recruitment of a firm's board members and the optimal divisional structure of its EM and FP. Unlike the other theories, resource dependence theory helps in responding to all the research questions as well as testing this study's hypotheses. In this way, it facilitates the development of an in-depth understanding of how a board's GD, AD and ND affect both EM and FP. Resource dependence theory assumes that the BOD is an essential part of the firm and its environment. It provides the resources and information necessary to mitigate risks, which help to cushion the firm against any uncertainties within both its external and internal environments. Hessels and Terjesen (2010) argue that resource dependence theory reinforces the fact that, based on their respective backgrounds, board members bring information and resources to the firm. Therefore, resource dependency theory may be the most effective model in examining the consequences of BD. The theory accepts that there is a negative association between GD and EM in Kuwaiti non-financial firms listed on Boursa Kuwait because it assumes that these firms are contingent on multidimensional resources. Consequently, a board's gender quota does not play a central role in developing countervailing initiatives aimed at managing all the earnings generated through the firm's multiple resources. As a result, these firms should put greater emphasis on the principles of scarcity and criticality rather than focusing on the effects of their boards' GD on EM.

Singh (2007) draws on resource dependency theory to examine the human and social capital of ethnic minority directors. The theory helps Singh to explore how a firm's external resources affect its tactical and strategic management. According to this author, the BOD has more social capital than its ethnic majority counterpart, rendering it a key driver in improving FP.

In addition to linking ND with increased FP, resource dependence theory supports the hypothesis that, in the case of Kuwaiti non-financial firms listed on Boursa Kuwait, there is a positive association between AD and FP. One of the theory's primary assumptions is that board members perform an internal control function and that they can influence their firm's efficiency through administrative efforts. Thus, the board's AD can play a central role in determining FP because people often adopt policies that reflect their age groups. According to Makhlouf, Laili, Basah and Siam (2015), older directors are more likely to avoid making risky decisions, whereas their younger counterparts are more inclined towards developing and implementing riskier strategies. Therefore, firms with younger directors may experience higher rates of growth than those with older directors. In turn, this confirms that in the case of Kuwaiti non-financial firms listed on Boursa Kuwait, there exists a positive association between AD and FP.

However, unlike FP, there is a negative association between AD and EM in such firms. For example, older directors have significant impacts on certain performance measures, such as cumulative returns and abnormal returns (Ararat, Aksu, & Tansel Cetin, 2010). According to Nakano and Nguyen (2011), while there is a significant negative relationship between a board's AD and EM, it becomes even more significant after using ROA as the controlling variable. These research findings are also consistent with agency theory, whereby in strongly performing firms, older directors are more likely to retain their board positions. Thus, the proportion of

young board members is more likely to relate positively to the firm's overall performance rather than its EM (Darmadi, 2011).

Julizaerma and Sori (2012) consider GD an emerging issue in the corporate world. Omar and Davidson (2001) add that, despite the dramatic increase in the number of women seeking managerial careers, their representation on BODs remains low. Carter, Simkinsand and Simpson's (2003) study provides evidence that, in the case of Kuwaiti non-financial firms listed on Boursa Kuwait, there is a positive association between GD and FP. The authors argue that BD is essential to increasing a board's independence as women are more likely to ask questions that their male counterparts avoid. Moreover, due to the collaborative skills that women often bring with them, the presence of female directors on a firm's board makes a significant contribution to the firm's bottom line. Adams and Ferreira's (2009) study on the impact of women in the boardroom with regard to CG and FP has found a significant positive relationship between a firm's GD and ROA. This is consistent with hypothesis H4, which states that in the case of Kuwaiti non-financial firms listed on Boursa Kuwait, there is a positive association between GD and FP. Moreover, resource dependency theory supports the hypotheses because it is more concerned with the humane resources that often originate in the firm's environment, namely the board. Consequently, a gender-diverse board is more likely to be positively associated with higher levels of FP.

While resource dependence theory helps to examine the consequences of BD, it has several problems that undermine its efficiency in measuring the impact of BD on both EM and FP. Resource dependence theory is less expansive than institutional and behavioural theories. Indeed, behavioural theories leverage a wider perspective and are more open to scholars interested in one of their central concepts (Ferreira, 2009). Its lack of open approach makes it

difficult for resource dependence theory to evolve quickly from explaining the rationalisation of the firm to a broader theory related to its macro-cultural environment. Consequently, resource dependence theory is less flexible, hence most management scholars shy away from it, not least when seeking non-economic explanations for a specific firm phenomenon. This is because behavioural and institutional theories are often perceived as being more flexible from a theoretical perspective. Consequently, these theories have become a formidable competitor to resource dependence theory. The various problems associated with resource dependence theory indicate that it may no longer be an effective theoretical model. However, this study uses resource dependence theory because it can inspire necessary insights and interpretations to appraise the impact of BD on EM and FP. Moreover, resource dependence theory provides this study with a window into understanding what makes a theoretical programme successful.

In addition, resource dependence theory is one of the most influential economic models of workplace diversity because it sets the framework of a firm's policies, especially when determining EM and FP. One of the primary strategies in determining a firm's economic performance involves employing a conception of board members as human capital and different economic metaphors such as innovation, technological change, productivity and competitiveness.

The theoretical perspectives developed in strategic management focus on establishing why some boards consistently outperform others in the same industry (Barney & Clark, 2007). From a wider perspective, the resource dependence school of thought focuses on determining how a board is able to reinforce a firm's competitive advantage from within its own resources. Resource dependence theory model assumes that if a board uses its resources effectively to utilise opportunities and neutralise threats, the firm's competences and resources will serve as

a source of competitive advantage. Thus, the resource dependency paradigm is likely to dominate in the board's decision-making processes. Barney and Clark (2007) note that board members are not expected to agree with every decision and instead are supposed to leverage their diverse backgrounds, opinions and inputs to achieve a holistic perspective of the issues at hand. Consequently, resource dependency theory supports BD and supports the hypothesis that, in the case of Kuwaiti non-financial firms listed on Boursa Kuwait, there is a positive association between GD and FP.

In conclusion, resource dependence theory helps to show that, in the case of Kuwaiti non-financial firms listed on Boursa Kuwait, there is a negative association between GD and AD and between ND and EM. The theoretical perspectives developed for the resource dependence model indicate that a more diverse board is better positioned to make superior decisions through brainstorming to improve FP. Moreover, the theory helps to highlight the negative association between ND and EM in the case of Kuwaiti non-financial firms listed on Boursa Kuwait. The resource dependence model agrees with the theoretical assumption that, when compared with a non-diverse board, a diverse board uses more information and makes better contributions to discussions. Consequently, resource dependence theory shows that in the case of Kuwaiti non-financial firms listed on Boursa Kuwait, there is a positive association between GD and FP, between AD and FP and between ND and FP. Moreover, the theoretical perspectives indicate that firms with more GD, AD and ND on their boards perform better and have superior financial returns. Thus, the theory supports the hypothesis that in the case of Kuwaiti non-financial firms listed on Boursa Kuwait, there is a positive association between BD and FP.

4.2.3 Social capital theory

Social capital can be defined as all the resources – whether real or implicit – that a person or group accrues through possessing a long-lasting network of institutionalised relationships of shared contact and respect (Hernández-Carrión et al., 2020; Sealy & Vinnicombe, 2007). It has also been defined as "the ability of actors to secure benefits by virtue of membership in social networks or social structures" (Portes, 1998, p. 6). Social capital encompasses the advantages that individuals or collective actors possess owing to their location in the social network structure. Age diversification assists in the utilisation of natural resources and threats that an organisation may encounter while establishing links with its external environment. Consequently, the theory advocates diversity given that a diverse BOD is able to bring in various types of social capital from its members (Niu & Chen, 2017). For instance, given that both genders differ considerably in terms of social capital, a gender-diverse board is likely to have more social capital than a single-gender board. The same case applies to ND boards (Adams & Ferreira, 2009). This is because different nationalities present significant variations that are likely to result in substantially diverse social capital (Luckerath-Rovers, 2013). In addition, AD on a BOD brings with it a wealth of social capital. This is because different age groups offer different insights and the inclusion of every age group on a board brings different forms of social capital. Therefore, a board with various aspects is likely to possess more social capital and hence it is likely to perform better than a board that has no diversity (Carter et al., 2010).

Social capital on the board encompasses two types of relationships, namely internal and external connections. Internal social capital can be measured through the experiences of co-workers on the board (Barroso-Castro et al., 2016). By contrast, external social capital can be determined through the links that the board has with outside organisations from the interlocking

directorates (Sealy & Vinnicombe, 2007). From the theory, we can stipulate that when organisations reconsider members of their boards, they should aim to increase internal connections, in addition to considering the primary role played by internal social capital. In order to increase external connections and use them to their advantage, organisations must hire female, young and foreign directors who have already established good connections externally (Barroso-Castro et al., 2016).

Social capital theory is significant in this study because it encourages BD. The theory holds that diverse boards are better positioned to leverage various forms of social capital from their members. The concept of social capital helps to describe the board's participation in EM and FP. This viewpoint tends to reinforce the hypothesis that, in the case of Kuwaiti non-financial firms listed on Boursa Kuwait, there is a negative association between EM and ND and the average age of the directors. The theory suggests that directors on less diverse boards possess significant social capital, which strengthens the firm's ability to monitor earnings. Ooi et al.'s (2017) findings support the theory's viewpoint by providing evidence that BD – especially in terms of human and social capital – does not significantly improve FP, but rather mitigates the negative impacts of crises that undermine it. Johnson et al. (2013) further support this perspective by stating that a board's composition is crucial in contributing to its ability to determine an organisation's outcome. While most of the arguments presented in different articles have focused on the size and the independence of the board, Johnson et al. (2013) emphasise the composition of the board based on demography. They suggest that there is no correlation between various demographic traits such as gender, age, race and ethnicity with the level of performance of the organisation (Johnson et al., 2013). However, social capital has a significant influence on the advice and counsel that the directors will provide; moreover, it will also affect the decision-making process. Tasheva and Hillman (2019) have presented an argument as to the benefits of diversification for team effectiveness. They suggest that diversity

is multifaceted, as it entails different sources, including demographic, human capital and social capital, all of which operate at different levels. Hence, the diversity that takes place at both the individual and the team level is not independent, as there should be a link ensuring the effectiveness of the performance of the directors of an organisation (Tasheva & Hillman, 2019). Social capital is the conduit from the flow of resources and information in both the internal and external environment of an organisation.

Unlike cultural and physical capital, social capital is contingent on the BOD being a part of the connections that they keep and the extent to which they engage with the firm's management (Stevenson & Radin, 2009). For example, in a large multinational corporation, the chairman of the board possesses a significant amount of social capital because he or she maintains a large and influential social network developed throughout his or her career. The chairman enjoys even more social capital if the board is more diverse and this leads to more positive outcomes for the firm (Mabogunje & Kates, 2020; Stevenson & Radin, 2009). Consequently, social capital theory accepts the hypothesis that, in the case of Kuwaiti non-financial firms listed on Boursa Kuwait, there is a positive association between a firm's performance and gender, age and ND. The approach establishes how social capital at the individual level will affect the choice of directors as well as the effectiveness of the board selected. At the personal level, social capital largely depends on the interpersonal linkages that each of the directors has both in the internal and the external environment of the organisation (Kim & Cannella, 2008). However, at the group level, social capital will represent an asset that incorporates both the relationships of the directors and other potential resources resulting from the link. Hence, theoretically, social capital can be divided into internal and external types based on locus and function. Chisholm and Nielsen (2010) support the argument by stipulating that both internal

and external social capital are in a position to generate unique resources that will prove relevant to the level of effectiveness of the BOD.

The benefits of BD in terms of AD and ND can be categorised into five distinct business rationales: market rationale, talent rationale, employee relations rationale, litigation rationale and governance rationale (Booth-Bell, 2018). In this regard, Booth-Bell (2018) argues that, if social capital theory's viewpoint regarding a director's ability to secure crucial human resources for his or her firm is taken into consideration, the social capital rationale becomes one of the primary benefits associated with BD. First, the market rationale suggests that boards with both younger and older directors are more likely to maximise their market share by leveraging the innovative and risk-oriented mindset of the younger directors while taking into account the risk factors (which have the potential to undermine the firm's success) often highlighted by the older directors. Second, diverse boards with directors from different age groups are more likely to have varying talents, a key driver in making successful strategic decisions. For example, younger directors may offer crucial insights about fostering innovations. Older directors may share their views but also know how to maintain such innovations sustainably, in turn improving overall FP. Moreover, talent has become the primary competitive advantage for firms (Booth-Bell, 2018). Third, BD in ND helps to improve overall employee relations, especially in multinational companies (Dore, 1973). Successful employee relations strategies leverage diversity and inclusion programmes in the workplace. However, a firm cannot have a comprehensive employee relations programme if the board itself does not lead by example. Therefore, diverse boards are more likely to motivate employees by reducing the risks of racial or ethnic segregation. Finally, diverse boards with directors from different age groups and nationalities are more likely to report better outcomes when addressing their litigation and governance issues.

Giannetti, Liao and Yu (2015) present an argument on the implication of the foreign experiences of foreign directors regarding the level of FP in the upcoming market. They suggest that foreign directors transmit knowledge to the organisation concerning various management practices and corporate governance. Oxelheim and Randoy (2003) offer a similar argument, as they try to establish the effects that the board membership of foreigners has for the level of corporate performance of an organisation. Their argument suggests that superior performance is an indication that a company has completely broken from the partially segmented domestic capital market. Other than the market rationale and different age groups, Kim (2005) suggests the need to consider the network characteristics of the BOD. The two main network characteristics are the board network density and the board's external social capital. Density will determine the extensiveness and the cohesiveness of interaction between members. External social capital, on the other hand, will establish the level to which the members of the board have connections with the outside world. Having a moderate level of board network density is crucial to enhancing a firm's value, as an excess will lead to destruction (Kim, 2005). Corporate boards are the focal point for the strategic and investment decisions of a firm. Boards that are more diverse and that include individuals with different nationalities perform positively, and in most instances they are connected with stakeholders' heterogeneity and the various international market operations available (Estélyi & Nisar, 2016).

Seibert, Kraimer and Liden (2001) note that firms can improve their social capital irrespective of their financial situation, age or future plans by appointing more educated directors, exploring beyond their industry, being more versatile and gaining more experience. While the debate continues on whether or not certain levels of education among directors are worth the investment, often the return on investment in social capital is contingent on the quality of the

human resources. Thus, a firm's return on an educational investment has far-reaching implications and has the potential to improve its overall outcomes (Kraimer & Liden, 2001). However, older directors are often more educated than younger counterparts. Consequently, it is necessary to maintain a diverse board to ensure sustainability in EM and FP. Gaining more experience opens up a firm to more opportunities for advancement (Seibert et al. 2001). In this way, different groups of people bring with them varying experiences. Consequently, maintaining a diverse board may be one of the most effective ways of increasing a firm's overall social capital. Finally, a versatile board is more likely to explore opportunities for growth beyond the firm's industry. A board comprising directors from diverse genders, ages and nationalities means that it is valuable in more than one area. Therefore, diversity plays a central role in helping a firm to excel at multiple facets even beyond its industry. In turn, this results in better earnings quality and FP. There is a clear connection between the valuation of an organisation and the proportion of the outside BD who are independent (Kim & Lim, 2010). The diversification of the outside directors focuses on the academic degree and age, which is believed to have a positive effect on the valuation process of the firm. Not only will the quantity be implicated, but also the quality of the outside independent directors will affect the valuation process of the organisation. Peck-Ling, Nai-Chiek and Chee-Seong (2016) support this opinion by suggesting that an increase in the number of foreign directors sitting on a board plays a key role in increasing the ROE. However, only when foreign investors dominate the voting rights will the ROE increase. Polovina and Peasnell (2015) provide an outcome that strongly supports the need for having foreign directors as board members. The presence of foreign board directors has a positive impact on the profitability level of the majority of foreign-acquired banks and an increase in income creates on the interest operations. Foreign directors have a significant positive impact on a firm's performance, measured by ROA, ROE and market value (Rahman, 2018). However, in line with many people's expectations, foreign directors have created

negative implications for the monitoring role of boards due to their different languages and backgrounds.

Social capital theory can help to develop a better understanding of the consequences of BD (Aguilera, 2005). The theory highlights the importance of diversity in increasing a firm's ability to recognise and value the differences that each director brings to the board (Lin, 2002). Although the primary aspects of workplace diversity revolve around obvious traits such as gender, age and nationality, there are other less noticeable aspects. These include employees' thinking and working styles (Gul et al., 2011; Reguera-Alvarado et al., 2017). One of social capital theory's primary arguments is that firms should leverage these differences to drive FP (Van der Walt & Ingley, 2003). For example, a highly diverse board is more likely to remain open-minded, progressive and unbiased when making critical decisions. In turn, these qualities reinforce innovation and the level of employee engagement and motivation (Adler & Kwon, 2002; Lin et al., 1981). Highly engaged employees play a central role in providing a firm with a competitive edge over its rivals. Moreover, especially in the short term, a board's decisions become easier to implement (Cyert & March, 1963; Hambrick & Mason, 1984; Haynes & Hillman, 2010).

The need for boardroom diversity has grown over the past three decades with firms today seeking directors with diverse skills and perspectives. Miller and del Carmen Triana (2009) note that the broad acceptance of the need for BD has been fuelled primarily by strong evidence from theoretical studies showing a strong correlation globally between BD and FP. The importance of increased BD has been further reinforced by the need to mitigate growing schisms, especially for firms in polarised societies. Parker's (2016) findings into the ethnic diversity of UK boards show that boards must now earn a licence to operate. This makes it

necessary to align the board's composition more broadly with its customer base and the local community. Parker (2016) adds that firms that have made use of diverse multi-ethnic and multicultural boards have not only successfully increased their overall FP but also managed workplace conflicts.

The analysis conducted on the consequences of BD suggest that public companies have taken the lead in championing the advantages of BD. This is partly because public companies are expected to be more socially responsible than private ones. Moreover, public companies have a larger social capital that makes it necessary to encourage diversity, especially among the top management. State Street Global Advisors is one of the companies taking the lead in promoting BD. One of the implications of firms advocating boardroom diversity is that now other firms have publicly joined the movement, stimulating investors to seek to conduct business with firms that are inclusive in terms of gender, age and nationality. Most of these firms utilise the concepts advocated by social capital theory, which views social capital as an essential component in improving FP.

Diverse boards in terms of age and nationality exhibit higher levels of expertise and experience. Thus, some firms have made it mandatory to have highly diverse boards, especially with respect to GD. Although social capital theory remained a vague concept in the mid-19th century, it is now the driving concept behind the networks of relationships between people who live and work within a society (Lin et al., 1981; Portes, 1998). Haynes and Hillman (2010) argue that social capital plays a central role in enabling firms to function effectively. Thus, the theory holds that a person's position within a particular group provides unique benefits that work to their advantage as well as that of the firm (Miller & Triana, 2009). For example, when choosing to hire between two directors with identical levels of experience and qualifications,

shareholders choose the one who is either better known within the company or serves on more committees, this being essential to the company's income (Hitt et al., 2002; Khoury et al., 2013; Palmer & Barber, 2001; Sundaramurthy et al., 2014). Consequently, the job should be awarded on the basis of social capital. In this case, the director is awarded the job based on his/her level of association with other directors as well as with the firm, the extent to which he/she participates and, occasionally, his/her popularity within the group (Fondas & Sassalos, 2000, p. 172). Social capital theory holds that because it works to their advantage, people are more likely to participate in improving firm outcomes and in bonding with those around them (Reguera-Alvarado et al., 2017). Therefore, one of social capital's potential benefits is that directors will focus on participating towards the well-being of the firm while seeking to create and maintain stronger social bonds with those around them, helping the company to survive and improve its networking (Terjesen et al., 2009).

Although social capital theory helps to highlight the positive association between GD, AD and ND on FP, there are some limitations that undermine its effectiveness in examining the consequences of BD. Erhardt et al. (2003) argue that social capital theory's characteristics, which highlight the productive benefits of leveraging diversity, also result in negative externalities. One of the potential downsides of the theory is its potential to foster behaviours within boards that exacerbate rather than improve EM. Carroll and Stanfield (2003) argue that social capital can undermine a firm's economic performance because it often acts as a barrier to social mobility and inclusion. Moreover, social capital is more likely to divide rather than unite members of a board along the lines of age groups, ethnicity and gender.

Social capital is often defined as the outcome of social relationships. Thus, it not only comprises the financial benefits accrued by a firm but, also the expected benefits often derived from cooperation between individuals and various groups. The primary difference between social capital and financial capital is that the former promotes positive relationships that in turn enhance the confidence and fulfilment of board members. However, despite its numerous benefits, social capital also results in unwanted outcomes. Portes and Landolt (2000) have identified some of the negative effects of social capital, including restrictions on individual freedoms, the exclusion of outsiders and excessive claims on board members. Moreover, the social capital model emphasises the importance of bridging the gap between GD, AD and ND rather than focusing on creating and maintaining the inherent bonds between different people. Consequently, social capital may further widen the gap between people, especially those experiencing reduced social mobility.

Portes and Landolt (2000) state further that directors who work in social enterprises should abide by the set rules and regulations and carry out only the assigned tasks. Thus, new ideas and personal views are not welcome in most cases. Consequently, social capital may be regarded as a liability, especially when the board consists of younger directors who are likely to propose different ways of doing things. Although social capital plays a central role in bridging the gap between the BOD and the firm's CEO, the individuals who benefit the most from social capital tend to lose their mobility. Portes and Landolt (2000) note that the resultant change from social capital is negligible in relation to the mobility trade-off. This often leaves them stuck in the same employment or board position for most of their career.

Another limitation of social capital theory is that, unlike in the case of the firm's employees, it takes no consideration of the impact of outsiders on FP. For example, only a particular section

of the top management tends to avail itself of the benefits of social capital and this in turn discourages other employees from actively participating in the firm's decision-making processes. According to Kostova and Roth (2003), most firms' democratic and administrative arrangements are frequently overwhelmed by particular social groups, resulting in adverse outcomes. The situation is regularly exacerbated by workplace diversity, whereby people are more likely to form social groups based on their GD, AD and ND.

From the literature, it can be concluded that both internal and external social capital exist in connection with the composition of the board through direct selection, despite the casual logic differing entirely. Furthermore, the influence of social capital on direct selection varies based on the context of the application (Johnson et al., 2013). Both internal and external social capital create resources that are unique and necessary to a board's effectiveness. However, social capital does not only contribute positively to a board, as there are negative implications such as restrictions on freedom and outside members. Board diversification is necessary as it increases the level of performance and operational efficiency within an organisation (Kim & Lim, 2010).

4.3 Development of hypotheses

This quantitative study consists of several independent variables that affect both EM and FP with regard to the non-financial firms listed on Boursa Kuwait. Against this background, this study utilises different hypotheses to test whether the different aspects of BD in the form of gender, age and nationality have either a positive, negative or no association with EM and FP in these firms.

4.3.1 Gender diversity (GD) and earnings management (EM)

As discussed in section 3.2.1 from an empirical studies perspective, there is a negative association between GD and EM. This means that the greater the GD on the board, the more able the firm is to conduct its business activities effectively. Furthermore, a gender-diverse board means that the firm's collective management skills are enhanced and, in turn, the board has a more effective monitoring system, which ensures that the firm does not spend money on things that have an adverse effect on its FP.

From the literature review, this study has noted that the findings of most previous articles reveal a negative relationship between GD on the board and EM. This justifies less manipulation of EM. This is because women are more careful and cautious than men in making ethical decisions (Clikean et al., 2001; Enofe et al., 2017; Hinz et al., 1997; Labelle et al., 2010; Lakhal et al., 2015; Omoye et al., 2014; Powell & Ansic, 1997; Riley & Chow, 1992; Susanto, 2016; Triki Damak, 2018; Zalata et al., 2018).

4.3.2 Age diversity (AD) and earnings management (EM)

As discussed in section 3.2.1 from an empirical studies perspective, there are few previous research studies pertaining to the association between AD on boards and EM. AD refers to the age range of a firm's BOD, the CEO and others who hold senior management positions. The appointment of younger and older people to these positions means that the board has a blend of experience and creativity, very helpful in ensuring the existence of an effective and accurate system in monitoring the firm's business activities.

4.3.3 National diversity (ND) and earnings management (EM)

As discussed in section 3.2.1 from an empirical studies perspective, the ND of a board's members means that the board possesses a range of different backgrounds, skills and experiences that can prove beneficial in carrying out the firm's business activities. The findings of many previous studies show that foreign directors bring a variety of skills and experiences from having worked in a range of export markets. Consequently, there is a negative relationship between ND and EM. However, the findings of other studies show that there is a positive relationship between ND and EM because foreign directors are often overly involved in other businesses and do not spend sufficient time in ensuring that the firm has an effective and accurate system for monitoring its business activities.

4.3.4 Gender diversity (GD) and firm performance (FP)

As discussed in section 3.2.2 from an empirical studies perspective, many previous research studies (e.g. Adams & Ferreira, 2009; Carter et al., 2007; Erhardt et al., 2003; Gordini & Rancati, 2017; Rose, 2007) have examined the relationship between GD and FP. This relationship is of significant concern in the labour market and firms have adopted various practices to improve their effectiveness in this area. There is a general recognition that by making the best use of the skills and experiences of the firm's men and women in arriving at well-informed decisions, GD can improve FP (Damardi, 2010).

Furthermore, Erhardt et al.'s (2003) findings show that there is a positive relationship between GD and ROA. This is because women bring a different perspective to the board and so decisions are made that ensure that the firm is well placed to deal with any given circumstance. Similar findings demonstrate that there is a positive relationship between GD and ROE. In

addition, Carter et al.'s (2003) and Gordini and Rancati's (2017) findings show a positive relationship between the presence of women on the board and FP as measured by TQ.

A firm's culture reflects the link between GD and FP (Julizaerma & Sori, 2012). A diverse workforce has a more significant breadth of views and hence GD encourages a firm to perform better. By contrast, Carter et al.'s (2007) conclusion seems to contradict these authors' earlier view that there is a positive relationship between GD and FP.

4.3.5 Age diversity (AD) and firm performance (FP)

As discussed in section 3.2.2 from an empirical studies perspective, the findings of several studies (e.g. Choi & Rainey, 2010; Ferrero-Ferrero et al., 2015) show a positive association between AD and FP. Firms have AD are likely to have more confident employees because these individuals believe that they have opportunities to grow their careers within its ranks. Interestingly, Dagsson and Larsson's (2011) findings demonstrate that, while there is a positive relationship between AD and ROA in Swedish firms, there is a negative relationship with TQ, because ROA measures FP and not the market's performance value.

By contrast, Kunze et al.'s (2013) and Shahata et al.'s (2017) findings show that there is a negative relationship between AD and FP. This view is supported by Eulerich et al.'s (2014) findings that there is a negative correlation between AD and FP because considerable BD can reduce the decision-making process and communication between board members. Furthermore, Tanikawa et al.'s (2017) findings show that where board members are relatively older, there is a significant negative relationship between AD and ROE but not between AD and ROA.

4.3.6 National diversity (ND) and firm performance (FP)

As discussed in section 3.2.2 from an empirical studies perspective, many studies have examined the relationship between ND and FP by determining advantages and disadvantages. The findings of several studies (e.g. Alesina & La Ferrara, 2005; Diepen, 2015; Erhardt et al., 2003; Hart, 2004; Kaczmarek, 2009) conducted in various countries confirm that there is a positive relationship between ND and FP. These studies' main focus is on determining the pros and cons of ND and FP by considering employees' perceptions of each other across countries. They show a positive relationship between ND and FP. By contrast, Darmadi (2011) argues that international diversity has no influence on either a firm's marketing performance measured by TQ or its accounting performance measured by EM.

From a theoretical perspective, Bhagat and Black (2002), Donaldson and Davis (1991), Hermalin and Weisbach (2003) and Rowley et al. (2017) have clarified that in agency theory, the managers-investors relationship provides a significant challenge because it is connected with agency issues, for example, information asymmetry and conflicts of interest. As the investors are a blend of people, the top managerial staff should similarly comprise a mix of men and women in order to provide 'board diversity' and to take care of the agency theory issue. Furthermore, resource dependence theory examines the influence of resource acquisition on a company's behaviour (Hillman et al., 2009). Through co-selecting the assets expected to survive, a firm's BOD fills in as the connection between the firm and its external factors (Pfeffer, 1982; Pfeffer & Salancik, 1978; Rondoy et al., 2006). With regard to the board, resource dependence theory considers how boards facilitate access to significant assets. With respect to BD in terms of gender, age and nationality, the BOD possesses a wide variety of skills and knowledge (Thomsen & Conyon, 2012) into businesses, employees, customers, markets and business opportunities. Furthermore, social capital theory considers board

members' connections for firm needs and support through shared respect and love (Adams & Ferreira, 2009; Hernández-Carrión et al., 2020; Niu & Chen, 2017; Portes, 1998; Sealy & Vinnicombe, 2007). The social capital that emerges when establishing relationship networks from gender, age and ND thus becomes strategic assets and a form of intangible capital deriving from relationships as well as further resources dependent both theories, focus based on true competitive advantage with other firms, which led to better FP and earnings quality (Hernández-Carrión et al., 2020; Johnson et al., 2013). The present study develops the following hypotheses based on the review of existing literature and theory:

H1: There is a negative association between gender diversity and earnings management.

H2: There is a negative association between age diversity and earnings management.

H3: There is a negative association between national diversity and earnings management.

H4: There is a positive association between gender diversity and firm performance.

H5: There is a positive association between age diversity and firm performance.

H6: There is a positive association between national diversity and firm performance.

With regard to the literature review, Table 2 shows the expected results as to whether or not each hypothesis is accepted or rejected. Chapter 6 details this study's findings.

Table 2: Expected results

With regard to the literature review, the author obtained these expected results		
Research hypotheses	**Expected relationship**	**Source**
H1: There is a negative association between gender diversity and earnings management in Kuwait.	-	Agency theory, resource dependence theory and social capital theory
H2: There is a negative association between the average age and earnings management in Kuwait.	-	Resource dependence theory and social capital theory
H3: There is a negative association between nationality diversity and earnings management in Kuwait.	-	Resource dependence theory and social capital theory
H4: There is a positive association between gender diversity and firm performance in Kuwait.	+	Agency theory, resource dependence theory and social capital theory
H5: There is a positive association between the average age and firm performance in Kuwait.	+	Resource dependence theory and social capital theory
H6: There is a positive association between nationality diversity and firm performance in Kuwait.	+	Resource dependence theory and social capital theory

4.4 Summary

In conclusion, the literature review has shown that BD, particularly in the form of GD, AD and ND, has a significant impact on FP. The present study uses agency theory, resource dependence theory and social capital theory to measure the impact of BD on EM and FP. First, agency theory has helped to explain and resolve issues in the relationship between firm principals and their agents. Most commonly, the relationship refers to that between the firm's executive as the agent and the shareholders as the firm's principals. The agency theory has helped to confirm H1 and H4 by arguing that embedding gender quotas on the membership of a firm's BOD and on its top management may help to increase the values of Kuwaiti non-financial firms listed on Boursa Kuwait.

Second, resource dependence theory studies have shown how a firm's external resources affect its behaviour. Resource dependence theory has demonstrated that in the case of Kuwaiti non-financial firms listed on Boursa Kuwait, there is a negative association between AD and EM. Thus, the proportion of young board members is more likely to be positively related to a firm's overall FP rather than its EM, helping to confirm H1, H2, H3, H4, H5 and H6.

Third, social capital theory has proved equally important in encouraging BD by arguing that diverse boards are better positioned to leverage various forms of social capital from their members. Social capital theory has shown that BD, particularly in the form of GD, AD and ND, has a significant impact on FP. Hence, social capital theory has helped to confirm H1, H2, H3, H4, H5 and H6.

Fourth, the results from using agency theory, resource dependence theory and social capital theory have shown that GD is essential to increasing a board's independence, as women are

more likely to ask questions that their male counterparts avoid. Moreover, due to the collaborative skills that women often bring with them, the presence of women directors on a firm's board contribute significantly to its bottom line.

The next chapter explains this study's methodology.

5.0 Chapter Five: Methodology

5.1 Introduction

This chapter explains the methodology used in this study. It begins with the research methodology, continues with a description of the sample and data and subsequently presents information concerning the dependent, independent and control variables utilised. Next, these variables are described in detail and are followed by information about the research models and the OLS assumptions used in this study. The chapter concludes by addressing endogeneity and causality problems.

5.2 Research methodology

This paper's methodology is rooted in a positivist philosophy. While I understand criticisms of positivism related to its limited ability to represent BD, this paper holds the view that this approach is able to demonstrate over time its effect on measurable objectives such as the relationships between BD and a company's EM and between BD and a company's FP. As its research method, this thesis utilises a deductive approach, beginning with the theory. Having already developed its hypotheses, this thesis proceeds by collecting secondary data in order that these can be either accepted or rejected. This thesis adopts a quantitative rather than a qualitative method of data collection using various databases, such as Capital IQ, books and journals. Having collected the data, the thesis uses SATA software to conduct a statistical analysis of my observations in order to establish how BD affects the EM and FP of Kuwaiti non-financial firms listed on Boursa Kuwait (see Figure 1).

5.3 Sample and data description

The data are collected from secondary sources such as Boursa Kuwait, the Public Authority for Civil Information, Capital IQ databases and annual reports. The quantitative analysis method is of the regression type. The reason for adopting this method is that almost all previous empirical studies regarding BD, EM and FP have used quantitative methods (Adams & Ferreira, 2009; Alshamari & Alsaidi, 2014; Campbell & Minguez-Vera, 2008; Carter et al., 2010; Erhardt et al., 2003; Gonzalez et al., 2014; Gordini & Rancati, 2017; Gull et al., 2018; Ittonen et al., 2013; Lakhal et al., 2015; Omoye et al., 2014; Peni & Vahamaa, 2010; Rose, 2007; Susanto, 2016; Zalata et al., 2018), rendering this study's findings consistent.

The data come from 103 listed Kuwaiti non-financial firms. The exclusion of the country's 47 financial enterprises from the sample owes to two main reasons. First, they are governed and operated through other sectors and the central bank (Bigelli & Sánchez-Vidal, 2012; Opler et al., 1999). Second, their CG structures and practices differ from those of non-financial firms because they follow the Kuwait Central Bank's CG practices. Consequently, it is difficult to compare their operations with those of non-financial firms. Indeed, these issues have resulted in some confusion when interpreting data (Chbib, 2015; Chen et al., 2008; Cohen, 2008; Damodaran, 2009; Guest, 2019; Hail, 2002; Kouaib & Jarboui, 2014; Sun et al., 2010). Furthermore, most previous studies (Gonzalez et al., 2014; Gull et al., 2018; Ittonen et al., 2013; Lakhal et al., 2015; Omoye et al., 2014; Peni & Vahamaa, 2010; Susanto, 2016; Zalata et al., 2018) examining the impacts of BD, EM and FP (Alshamari & Alsaidi, 2014; Adams & Ferreira, 2009; Campbell & Minguez-Vera, 2008; Carter et al., 2010; Erhardt et al., 2003; Gordini & Rancati, 2017; Rose, 2007) have excluded financial firms. Therefore, in order to ensure consistent analysis, it is essential to apply the same process. Table 3 shows nine Boursa Kuwait classifications: basic materials; consumer goods; consumer services; health care;

industry; oil and gas; real estate; technology; and telecommunications. Table 4 presents the number of delisted firms provided by Boursa Kuwait during the study period and this thesis removed it from the data, that contained only the listed companies that survived during 2010 to 2017 period, for reasons of data availability.

Table 3: Boursa Kuwait classification

Industry type (non-financial)	Number
Basic materials	4
Consumer goods	3
Consumer services	14
Health care	3
Industry	27
Oil and gas	6
Real estate	40
Technology	1
Telecommunications	5
Total	103

Table 4: Number of delisted firms

Year	Number of delisted firms	Percentage of total population (33 firms)
2010	0	0
2011	0	0
2012	3	9.09
2013	2	6.06
2014	2	6.06
2015	2	6.06
2016	7	21.21
2017	17	51.52
	33	100

The data collected for this study are generally classified into four categories. The first category is data related to the CG mechanisms relevant to the BOD (gender diversity, family firm, board size, board independence and role duality), including the firm's leverage, losses, year and industry type. The second category contains data related to directors' AD and ND. The third category contains data related to firm age and firm size. The fourth category contains data related to EM and FP and includes both accounting-based and market-based measures of performance. As shown in Table 5, these data were collected from different sources.

Table 5: Data sources

Variables	**Source**
Gender diversity, family firm, board size, board independence, role duality, leverage, losses, year, industry type	Annual report
Directors' age and ND	The Public Authority for Civil Information
Firm age	Boursa Kuwait
Liquidity, firm size, sales growth, cash flows, dividend per share, FP, EM	Capital IQ database

The period of study is from 2010 to 2017. The first reason for choosing this period is that it follows the significant development of various CG practices since the 2007 financial crises and therefore the data reflect the latest CG practices. The second reason is that it provides data from the latest available period. The third reason is that this period includes the implementation of the KCGC in June 2013.

5.4 Definition of variables

This study uses three key types of variables: dependent, independent and control. The dependent variables are EM and FP. The independent variables are gender, age and ND and reflect the diversity of the BOD. The control variables are firm size, firm age, family firm, board size, board independence, role duality, leverage, liquidity, sales growth, cash flows, dividend per share, losses, industry type dummy and year dummy. Additional details are given in Tables 11 and 12, while section 3.2.3 provides further information about the control variables.

5.4.1 Dependent variables

5.4.1.1 Earnings management (EM) measurements

Effective reporting processes and disclosure reduce the challenges for businesses with valuable economic reasons. A company's management may influence its financial reports as well as its disclosure, in turn introducing an additional risk for investors and minimising capital allocation's effectiveness (Braam, Nandy, Weitzel, & Lodh, 2010). Finance and accounting experts have pinpointed the significance of exploring EM from various viewpoints to create a framework possible for encountering such behaviours (Roychowdhury, 2006). Building an EM framework may help establish an effective way for managers to communicate internal information to stakeholders. The disclosed information must meet certain qualitative elements, such as comprehensibility, generalisability, reliability and relevance.

In theory, EM is explained by two different accounting theories. Manipulating earnings may be seen as beneficial/effective or opportunistic as per the contractual perspective of financial reporting (Jiraporn et al., 2008). The effective viewpoint asserts that EM may be employed as a managerial tool for confiding internal information to outsiders and thus increasing the value

of financial reporting for investors (Jiraporn et al., 2008; Subramanyam, 1996). The opportunistic view suggests that management utilises EM as a tool for maximising their utility; for instance, managers maximise their bonuses, incentives and build a better picture of their performance for themselves to grantee stockholders' votes (Healy, 1985; Holthausen et al., 1995; Jiraporn et al., 2008). Furthermore, firms may meet capital market expectations by managing earnings, such as by using initial public offerings (IPO) that let them increase their stock prices (Erikson & Wong, 1999; Jiraporn et al., 2008; Teoh et al., 1998a, 1998b).

When managers use EM opportunistically, companies whose agency costs are more severe must show a higher degree of EM. That is, the extent of EM is positively connected to the weight of agency conflicts (Abdullah & Ku Ismail, 2012; Goel, 2012). On the other hand, EM can be aimed at conveying private information and therefore improve the information content for earning, benefiting shareholders as a result (Vladu, 2015).

Management may manipulate the financial data reported to primary users and the market. Accruals management is an integral aspect of possible management manipulations, as per previous research in the EM field (Cohen, Pandit, Wasley, & Zach, 2011; Srivastava, 2019). Accruals exist because there is no single unified definition of economic income and profit. The implications of transactions must be recorded as they occur and reported in the period to which most economic activities relate. Accruals comprise an element of uncertainty because they are not fully appreciable and observable (Enomoto, Kimura, & Yamaguchi, 2015). This element is often termed 'discretionary accruals'. Managers may use accruals as a tool for attaining a desired earnings objective (Cohen, Dey, & Lys, 2008). Furthermore, managers may affect earnings directly through activities that influence operating cash flow (Ho, Liao, & Taylor,

2015). Real activities manipulation occurs once the actions of the management diverge from established normal business practices to attain an earnings benchmark.

Earnings manipulation can occur through several EM strategies, such as discretionary or real EM and classification shifting. Accrual-based EM aims at obscuring actual economic performance through altering accounting techniques or estimates within the generally accepted principles of accounting (Al-Absy, Ismail & Chandren, 2018; Cohen & Zarowin, 2010). Real EM changes the performance of actual business transactions. Under real EM, companies alter their operating activities to fulfil short-term earnings targets by adapting the structure or timing of real transactions. This activity has direct cash flow implications and potential long-term impacts on economic value (Braam et al., 2015; Kothari, Mizik, & Roychowdhury, 2012). Real EM is regarded as more challenging to observe than accrual-based EM, making it easier for companies to hide the gains made. Classification shifting is an EM device used to misclassify income statements so as to manipulate main earnings, while net earnings stay equivalent (Athanasakou et al., 2009; Fan et al., 2010; McVay, 2006; Zalata & Roberts, 2016). According to Fan et al. (2010) and Zalata and Roberts (2016), boards are inspired to misclassify repeating costs as non-repeating when such practices permit them to meet/beat foreordained income benchmarks.

However, in most developing economies, modified Jones (1995) falls short because firms tend to use current accruals for the sole reason that current accruals entail cash flow implications in subsequent years (Yoon, Jiraporn, & Miller, 2006). From examining the types of accruals used by South Korean firms to increase or reduce their reported earnings, Yoon et al.'s (2006) findings show that earning-increasing firms used non-cash revenues whereas earning-reducing firms employed non-cash expenses. Overall, their findings conclude that the modified Jones

model (1995) is ineffective in the South Korean market. However, Algharaballi and Albuloushi's (2008) findings show that Kuwaiti firms practise EM to maximise incentives and, accordingly, EM is effective in Kuwait. Islam, Ali and Ahmad (2011) have analysed the effectiveness of the modified Jones model in detecting EM in the Dhaka Stock Exchange's (DSE) initial public offerings. Their study follows on from a previous study demonstrating the modified Jones model's ineffectiveness in measuring EM in the South Korean market. Islam et al.'s (2011) findings show that the modified Jones model was ineffective in the Bangladesh market because its explanatory power was only 9%. In an attempt to establish the optimal model, Chen (2010) has analysed 77 Chinese stock market ST companies by using various accrual-based EM models. His conclusions show that, although the modified Jones model needs to be improved in some areas, it is the best model and above all other EM measures of discretionary accruals.

There have been arguments in favour of performance-matched discretionary accruals models, like the Kothari model. Proponents have suggested that performance matching on ROA controls for the effect of the performance on the measured discretionary accruals. Therefore, the use of the Kothari model increases the reliability of the EM results. Empirical studies suggest that the factors that determine EM in emerging markets are dependent on the model used to estimate the discretionary accruals (Charfeddine, Raheb, & Omri, 2013). This perception has been supported by their investigation into the Tunisian market where they used the modified Jones model, the Dechow Model (1995) and the Kothari model (Charfeddine, Raheb, & Omri, 2013). Furthermore, empirical studies support using the Kothari model because there are no fraudulent activities associated with the use of this model in measuring EM (Jones, Krishnan, & Melendrez, 2007).

A vital component of the traditional accruals measure of EM is its ability to be adjusted to the accruals performance when a firm's assets and performance are matched with the ROA and the industry index. In this respect, Kothari et al. (2005) explain that the inclusion of either ROA or ROA matching accruals can improve other models. Chen, Yang and Huang (2010) agree with this assertion but conclude that the addition of the life cycle to the variables further improves these models. Therefore, it is evident that as much as the Kothari model improves a certain aspect of other models, other variables still need to be included in order for these measures of EM and their results to be completely reliable.

According to Jackson (2018), discretionary accruals measures have their limitations. He states that although discretionary accruals are recognised as being noisy proxies for EM, they are still broadly used in the literature. This viewpoint condemns the use of discretionary accruals without really discrediting their value or significance in the cash flow framework of an organisation (Huchet-Bourdon et al., 2017). Thus, like the previous argument, it lacks the solid backing of the principles of accounting. In retrospect, accruals are part of the transactions that an entity enters in the cash flow system (Jackson, 2018). Moreover, Jackson (2018) claims that discretionary accruals are not appropriate for measuring EM owing to how they are calculated. Peer companies' decisions tend to influence regression coefficients and thus residuals in accruals models, potentially resulting in false calculations regarding EM in other companies. Jackson presents three reasons why discretionary accruals are inappropriate to measuring EM. First, discretionary accruals are necessarily affected by the conditional means of all variables in the model. Second, discretionary accruals amounts are generally not plausibly associated with the size of earnings (ROA). Third, discretionary accruals as EM measures lead to EM manipulation.

Furthermore, there are limitations with the Jones model (1991), which relates total accruals to changes in sales, plants, property and equipment. This is because sales can be subject to how managers treat earnings (Arun et al., 2015; Gull et al., 2018). In the light of this limitation, the modified Jones model suggests that managers use accruals to manipulate earnings, as accruals are not easily detectable by stakeholders (Dechow, Sloan, & Sweeney, 1995; Gull et al., 2018; Jones, 1991; Kothari, Leone, & Wasley, 2005). Furthermore, short-term accruals are always simpler to manage than long-term accruals (Arun et al., 2015; Becker et al., 1998; Gull et al., 2018). To conclude, the viewpoint on EM practices are diverse. However, not the incentive for their undertaking but rather the motive should be questioned, because in practice they are beneficial to the entity. Although the interests of long-term investors might not align with those of the management, they share a common goal of monitoring the progress of the organisation.

Table 6: Articles on EM

Number	Author/s and year	Region	EM measured
1	Gull et al. (2018)	France	Modified Jones (1995)
2	Ittonen et al. (2013)	Finland and Sweden	Dechow & Dichev (2002) and Jones (1991)
3	Peni & Va¨ha¨maa (2012)	USA	Dechow & Dichev (2002) (DD model) and McNichols (2002) (modified DD model).
4	Osma & Noguer (2007)	Spain	Jones model (1991)
5	Talab, Flayyih, & Ali (2018)	Iraq	De Angelo (1986), Healy (1989), Jones (1991), Jones Rectifier, modified Jones (1995) and Beneish M-score
6	Kumai & Bala (2015)	Nigeria	Dechow (1995), modified Jones (1995)
7	Park & Shin (2004)	Canada	Jones (1991), modified Jones (1995)
8	Sanda et al. (2008)	Nigeria	Modified Jones (1995)
9	Azutoru et al. (2017)	Nigeria	Kothari (2005), modified Jones (1995)
10	Mohd, Iskandar, & Rahmat (2005)	Malaysia	Kothari (2005), Jones (1995)
11	Alareeni & Aljuaidi (2014)	Palestine	Yoon and Miller models (2006)
12	Neill et al. (1995)	South Korea	Jones (1991)
13	Yoon & Miller (2006)	Bangladesh	Dechow (1995), Kothari (2005), modified Jones (1995)

Earnings management (EM)

This study uses discretionary accruals measured by modified Jones (1995), and Kothari (2005) models were chosen because, according to previous studies, the use of a different type of measurement for EM does not change the results (Dechow et al., 1995; Jones, 1991; Kothari et al., 2005). Furthermore, the modified Jones and Kothari models are generally used in the literature to measure discretionary accruals, facilitating this study's comparability (see Table 6) (Arun et al., 2015; Fan et al., 2012; Gull et al., 2018; Jackson, 2018; Kim & Jung, 2020; Shu et al., 2015; Yu et al., 2020). This thesis uses EM as the absolute value of discretionary accruals (Abdelwahed, 2018; Ittonen et al., 2013; Sun et al., 2010). Data were collected from the Capital IQ database and Excel was used for the following calculation:

$$\frac{TA_{it}}{AT_{it-1}} = a_0 + a_1\left(\frac{1}{AT_{it-1}}\right) + a_2\left(\frac{(\Delta REV_{it} - \Delta AR_{it})}{AT_{it-1}}\right) + a_3\left(\frac{PPE_{it}}{AT_{it-1}}\right)$$
$$+ Year\ Fixed\ Effects + Industry\ Fixed\ Effect + e_{it}$$

Where:

TA_{it} is the total accruals of firm i in year t;

ΔREV_{it} is the change in revenues of firm i between years t and t-1;

ΔAR_{it} is he change in receivables of firm i between years t and t-1

PPE_{it} is the level of gross property, plant and equipment of firm i in year t;

AT_{it-1} is the total assets for firm i in year t-1;

The a_1, a_2 *and* a_3 are obtained by estimating the equation using each year and firm in the industry. This study uses time effects and the potential industry as dummy control variables.

e_{it} *is the error term*

The second measurment is the Kothari model (2005) (Abdelwahed, 2018; Ittonen et al., 2013; Kothari et al., 2005; Sun et al., 2010).

$$\frac{TA_{it}}{AT_{it-1}} = a_0 + a_1\left(\frac{1}{AT_{it-1}}\right) + a_2\left(\frac{(\Delta REV_{it} - \Delta AR_{it})}{AT_{it-1}}\right) + a_3\left(\frac{PPE_{it}}{AT_{it-1}}\right) + a_4\left(\frac{ROA_{it}}{AT_{it-1}}\right)$$
$$+ Year\ Fixed\ Effects + Industry\ Fixed\ Effect + e_{it}$$

Where:

TA_{it} is the total accruals of firm i in year t;

ΔREV_{it} is the change in revenues of firm i between years t and t-1;

ΔAR_{it} is the change in receivables of firm i between years t and t-1

PPE_{it} is the level of gross property, plant and equipment of firm i in year t;

ROA_{it} is Return on Assets of firm i in year t

AT_{it-1} is the total assets for firm i in year t-1;

The a_1, a_2 and a_3 are obtained by estimating the equation using each year and firm in the industry. This study uses time effects and the potential industry as dummy control variables.

e_{it} *is the error term*

5.4.1.2 Measurements of firm performance (FP)

Several organisations use market measures and accounting measures to determine their overall FP. The phenomenon of FP is a matter of some concern, as divergent measures such as market to book, value ratio, ROE, ROA TQ, net present value, cash to assets, stock return, return on capital employed, market return and labour productivity all exhibit some variations (see Table 7). In order to address this study's research objective and the research question concerning whether or not BD affects FP, this study measures FP by using the accounting measures of

ROA and ROE and the market measure of TQ. Most previous studies have used these measures to monitor the effectiveness of FP in maximising shareholders' wealth. The main aim of CG practices is governance to improve FP and managers should use many theories, such as agency theory, to maximise shareholders' wealth.

While firms use ROA and ROE as an accounting measure of FP and TQ as a market-based measure of FP (Abowd, 1990), various studies have used the functionality differently. Although ROA, ROE and TQ are accredited indicators of FP, there has been a fierce debate about their relationship. Furthermore, most articles (see Table 7) have used these measurements, which are today available on numerous databases such as Capital IQ and Bloomberg. There are also now demands for firms to disclose their information and for them to be transparent in order to minimise the information asymmetry problem, which results from the problem between the principal and the agent (Chbib, 2015).

Abowd (1990) and Singh, Tabassum, Darwish and Batsakis (2018) conceptualise TQ as either a long-term market measure or a future reflection of FP. On the other hand, Carnes, Xu, Sirmon and Karadag (2019) consider ROA and ROE to be either short-term accounting-based measures or past reflections of FP. While there is no consensus on the connection between future long-term FP and past short-term FP (Ardi & Murwaningsari, 2018), Orlitzky, Schmidt and Rynes (2003) perceive both accounting and marketing measures as reflections of a firm's FP.

ROA is commonly used as an indicator of net income relative to the capital cost of the original investment (Khadafi, Heikal, & Ummah, 2014). ROE is calculated by dividing net income by shareholders' equity. A high ratio portrays benefits and vice versa (Chandani, Mabood, & Mahmood, 2018). ROA and ROE are metrics that are used to determine a firm's profitability

in relation to its gross assets. The significant objective of the firm's assets is to produce profits and to generate revenue. Therefore, by using assets to generate profits, the ROA and ROE ratios help investors and the firm's management to discover effective approaches. Notably, firms invest money in the form of capital assets and the return is valued in terms of profits. Wang et al. (2018) claim that the ROA ratio is determined by the margin of profit margin as a percentage of the firm's total asset turnover. However, Spierdijka and Zaourasa (2018) assert that average total assets are the costs of historical assets reflected in the balance sheet without taking account of the accumulated depreciation. Davis et al. (2018) claim that all assets are funded either by debt or equity and, by adding back interest expenses, some investors disregard the asset acquisition costs in the calculation of the firm's return. Epstein (2018) asserts that, by disregarding the firm's assets, the acquisition cost results in an attractive ROA that is favoured by investors. A high ratio shows that compared to its industry rivals, a firm's management of its assets generates surplus income (Liu, Lee, & Zhang, 2018). According to Aktan (2018), different industries use divergent assets.

On the other hand, a market-based measure such as TQ does not escape from the debate. Lindenberg and Ross (1981) deem the TQ market measure to represent the ratios between the market values of the physical assets relative to their replacement values. Burgman and Van Clieaf (2012) assert that Nicholas Kaldor introduced TQ in 1966 in relation to marginal productivity and macroeconomic theory. Singh et al. (2018) argue that James Tobin popularised the market measure in 1977, with TQ described in two quantities. To start with, the numerator represents the market valuation, where the market going price is used in the exchange of existing assets. Second, the denominator is either the reproduction or the replacement cost, which is the market price for newly produced commodities. Hughes,

Hodgkinson, Elliott and Hughes (2018) claim that the ratio is extremely useful and significant because it relates financial markets to a market for services and goods.

Trabelsi and Chikh (2018) argue that it is difficult to determine a firm's replacement value of its assets. As shown below, TQ is a common term used in the financial literature to calculate the ratio by comparing a firm's equity and liabilities with correspondent book values the company's asset replacement value.

$$\text{Tobin's Q} = \frac{\text{Equity market value} + \text{Liabilities market value}}{\text{equity book value} + \text{Liabilities book value}}$$

Langenstein, Uzik and Glova (2018) claim that financial analysis also applies an inverse ratio known as the 'book to market ratio', shown below:

$$\text{Book to Market Ratio} = \frac{\text{Equity Book Value}}{\text{Equity Market Value}}$$

With particular regard to stock-listed firms, financial records place considerable emphasis on the capitalisation of the market. This is normally calculated for a specified time and is depicted as the share price relative to a number of shares. Cupic and Todorovic (2011) assert that TQ is used to determine whole market valuation relative to aggregate corporate assets.

Blundell, Bond, Devereux and Schiantarelli (1992) claim that, when TQ is greater than 1.0, the market value is higher than the firm's declared assets. This means that the market value mirrors certain unspecified firm assets. According to Connolly and Hirschey (2005) and as shown below, a significant TQ value stimulates a firm to focus more on investing in capital that is imperative relative to the price paid:

$$TQ = \frac{\text{Market Value of Installed Capital}}{\text{Replacement Cost of Capital}}$$

Conversely, if TQ is lower than 1, then the recorded value of a firm' assets is higher than the market value. This suggests that the market is undervaluing the firm (Peters, Smith, & Thomas, 2018). However, in low-TQ ratio scenarios, there is no straightforward balancing mechanism, suggesting that the assets' market value is less than the replacement cost (TQ<1) (Talab, Flayyih, & Ali, 2018). Such a scenario is an indicator that the market effort to deploy real assets earns insufficient returns and therefore people who wish to sell their assets in the market are subject to the value of their discounted assets.

Mujahid and Akhtar (2014) assert that if real assets are sold far above their replacement costs, for instance through liquidation, the aforementioned action benefits the shareholders because it drives the TQ ratio back upwards towards parity (TQ->1). According to Boguth and Simutin (2018), a low TQ ratio for the entire market indicates investors' pessimism about future returns on the asset. Carnes, Xu, Sirmon and Karadag (2019) assert that various firms with lower TQ ratios are targeted due to the fact that the market penalises the value of their assets.

The evaluation of TQ reveals that it experiences various drawbacks. For instance, the measurement of TQ depends on the effectiveness of the accounting items included in the firm's balance sheet. Second, while TQ shows the firm's growth potential, a change in the firm's TQ value within a given period may translate to changes in the valuation of the projected growth prospects, which may result from exogenous factors that only the firm's management can assess. These factors may include issues such as the improvement of the economic and industrial tracks (Sarin & Summers, 2018). Peters et al. (2018) add that although TQ is a

reliable measure that has been used for many years to display the existing connection or relationship between the ownership structure and FP, users ought to test either the authenticity or the efficiency of the obtained results by using an alternative approach to performance measurement.

Table 7: Articles on board diversity and firm performance

Number	Author/s and year	Region	Performance measured
1	Abdullah (2004)	Kuwait	Firm's gross revenue and income
2	Alshammari & Alsaidi (2014)	Kuwait	Tobin's Q & ROA
3	Campbell & Mínguez-Vera (2008)	USA	Tobin's Q
4	Carter et al. (2010)	USA	Tobin's Q & ROA
5	Carter et al. (2003)	USA	Tobin's Q
6	Adam & Ferreira (2009)	USA	Tobin's Q & ROA
7	Zahra & Stanton (1988)	USA	ROE & ROA
8	Erhardt et al. (2003)	USA	ROA & ROI
9	Campbell & Minguez Vera (2010)	Spain	Tobin's Q
10	Jadiyappa et al. (2019)	India	ROA & ROE
11	Abdullah & Ismail (2017)	Malaysia	ROA & TQ
12	Abowd (1990)	USA	ROA, ROE, ERET & TSR
13	Lückerath-Rovers (2013)	Amsterdam	ROE, ROS, ROIC, EBIT, TSR & stock price growth

Firm performance (FP)

This study uses two types of FP, namely accounting-based measures and market-based measures, to test the impact of BD on FP and its effect on short-term and long-term FP. This study uses ROA and ROE as the accounting-based measures and TQ as the market-based measure. The latter was calculated by dividing the firm's market value by the replacement value of its assets. The reasons for using TQ are that it includes a long-term element in its calculation and most CG and FP studies have used this measure. In addition, TQ includes long-term FP, represented by a percentage over a particular period of time, as reflected in the values of its various stocks and shares.

5.4.2 Independent variables

The use of FP follows the recent direction in the CG literature. This study classifies the independent variables into three groups. One of the independent variables is GD, which is measured by the percentage of women on the board (Adams and Ferreira, 2009; Carter et al., 2007; Croson & Gneezy, 2009; Liu et al., 2014; Peni & Vahamaa, 2010; Wahid, 2018). The measurement of GD by education and experience is not available. As shown in Table 8 below, between 2010 and 2017 the number of directors on all non-financial firms' boards totalled 4,968. This included 4,762 male directors representing 95.85% and 206 female directors representing 4.15%. It is also good to know that 10.68% of the total number of female directors took a chairman position on the board and 12.62% an assistant chairman position. Thus, 23% of the total number of women on Kuwaiti firms' boards took a top position.

Table 8: Gender and female positions on boards

All directors	4,968	100%
All males	4,762	95.85%
All females	206	4.15%
Total female chairman directors	22	10.68%
Total female assistant directors	26	12.62%
Percentage of females in top positions out of all female directors	48	23%

The second group is AD, which is measured by taking the average age of all board members in each year and for each firm. Thereafter, the sample average age is compared to each board's average age by using a dummy that equals one for 48 years of age and below (reflecting a young director) and zero for directors aged 48 and above (as a proxy for experience) (Abdullah et al., 2013; Amran, 2011; Bilimoria & Piderit, 1994; Golden & Zajac, 2001; Higgs, 2003; Kunze et al., 2011; Post et al., 2011; Xu et al., 2017). Bilimoria and Piderit (1994b) found the average age of board members to be 50, which is close to this study's average age. Furthermore, Johnson et al. (2013) reviewed the study of board composition that the most age diversity measure is by average. Age reflects the background and experience that a director accumulates over time. Senior directors are more knowledgeable, because their age provides evidence of their overall experience in guiding a business (Bilimoria & Piderit, 1994). As shown in Table 9, the number of Kuwaiti non-financial firms' boards totalled 824 from 2010 to 2017; on 459

of them the average age of the board members was below 48 years, while on 365 of them the average age was above 48 years.

Table 9: Average board age

All boards from 2010 to 2017	824	Percentage
Average board age > 48	365	44
Average board age < 48	459	56

The third group is ND, which is measured by the percentage of foreign directors on the board out of the total number of board directors (García-Meca et al., 2015; Gull et al., 2018). As shown in Table 10 below, the total number of directors on the boards of all Kuwaiti non-financial firms from 2010 to 2017 was 4,968. Of these, 4,416 directors were Kuwaiti, representing 88.89% of the total directors, while 552 directors were non-Kuwaiti, or 11.11% of the total directors.

Table 10: The percentage of Kuwaiti and non-Kuwaiti directors

Director type	**Number of directors**	**Percentage**
All directors	**4,968**	**100**
Kuwaiti directors	4,416	88.89
Non-Kuwaiti directors	552	11.11

Tables 11 and 12 summarise the definitions of the independent variables that follow (French & Raven, 1960; Hart, 2014; Harjoto et al., 2015 Kaczmarek, 2009; Ramaswamy et al., 2001). The data for these variables were collected from two sources. GD comes from corporate annual

reports from 2010 to 2017. Both the directors' age and ND data come from the Public Authority for Civil Information for the same period. The control variables of firm size, age, ownership, board size, board independence, role duality, leverage, liquidity, sales growth, cash flow, dividends per share and loss all follow the literature review (see section 3.2.3 in the literature review chapter).

5.5 Research models

The proposed quantitative analysis is robust and uses descriptive statistics, a correlation matrix and a multi-regression. This study uses the following models to examine the influence of the independent and control variables on EM and FP. The main model of the study follows the below authors, but this thesis adds new control variables (for further details, see section 2.2.3):

Model 1 is based on Francis and Wang (2004) and Gonzalez et al. (2014), as shown in Table 11.

$$\boldsymbol{EM} = \beta_0 + \beta_1 GD + \beta_2 AD + \beta_3 ND + \beta_4 BSZ + \beta_5 BID + \beta_6 DUAL + \beta_7 FF + \beta_8 CSZ + \beta_8 CA + \beta_9 L + \beta_{10} LQ + \beta_{11} SG + \beta_{12} CF + \beta_{13} DPS + \beta_{14} FL + \beta_{15} Dummy\ year + \beta_{16} Dummy\ firm + \varepsilon$$

Model 2 is based on Adams and Ferreira (2009), Carter et al. (2003) and Gull et al. (2017), as shown in Table 12.

$$\boldsymbol{FP} = \beta_0 + \beta_1 GD + \beta_2 AD + \beta_3 ND + \beta_4 BSZ + \beta_5 BID + \beta_6 DUAL + \beta_7 FF + \beta_8 CSZ + \beta_8 CA + \beta_9 L + \beta_{10} LQ + \beta_{11} SG + \beta_{12} CF + \beta_{13} DPS + \beta_{14} FL + \beta_{15} Dummy\ year + \beta_{16} Dummy\ firm + \varepsilon$$

Where:

$\beta_0\ is\ the\ constant;\ GD\ is\ gender\ diversity;\ AD\ is\ age\ diversity;\ ND\ is\ national\ diversity$

$BSZ\ is\ board\ size;\ BID\ is\ board\ independence;\ DUAL\ is\ role\ duality;\ FF\ family\ firm;$
$FSZ\ is\ firm\ size;\ FA\ is\ firm\ age;\ L\ is\ leverage;\ LQ\ is\ liquidity;\ SG\ is\ sales\ growth;$
$CF\ is\ cash\ flow;\ DPS\ is\ dividends\ per\ share;\ FL\ is\ firm\ losses,\ and\ \varepsilon\ is\ the\ error\ term$

Table 11: The variables of the earnings management model

Variable	***Measurements***	***References***	***Sources***
Dependent variables			
Earnings management (EM)	Kothari model (2005) and modified Jones model (1995)		Capital IQ
Independent variables			
Gender diversity (GD)	The ratio of women directors to total board size		Annual report
Age diversity (AD)	The ratio of the director's age to the average age of the directors on the board. It is a dummy variable that equals one if the age is below 48 and zero if the age is 48 or above		The Public Authority for Civil Information
National diversity (ND)	The ratio of foreign directors (non-Kuwaiti) to board size		The Public Authority for Civil Information
Control variables			
Firm size (FSZ)	Log total assets	Gonzalez et al. (2014), Gull et al. (2018), Ittonen et al. (2013), Lakhal et al. (2015), Omoye et al. (2014), Peni & Vahamaa (2010), Susanto (2016), Zalata et al. (2018).	Capital IQ
Firm age (FA)	Number of years of business operation	Zaluki et al. (2008).	Boursa Kuwait
Family firm (FF)	Dummy variable for founding family members, equalling one if the board has at least one	Ebrahim & Abdel Fattah (2015).	Annual report

	founding family member and zero otherwise		
Board size (BSZ)	Total number of directors	Gonzalez et al. (2014), Gull et al. (2018), Ittonen et al. (2013), Lakhal et al. (2015), Omoye et al. (2014), Peni & Vahamaa (2010), Susanto (2016), Zalata et al. (2018).	Annual report
Board independence (BID)	The proportion of independent directors to total board	Gonzalez et al. (2014), Gull et al. (2018), Ittonen et al. (2013), Lakhal et al. (2015), Omoye et al. (2014), Peni & Vahamaa (2010), Susanto (2016), Zalata et al. (2018).	Annual report
Role duality (DUAL)	Director also holds the CEO position	Gonzalez et al. (2014), Gull et al. (2018), Ittonen et al. (2013), Lakhal et al. (2015), Omoye et al. (2014), Peni & Vahamaa (2010), Susanto (2016), Zalata et al. (2018).	Annual report
Leverage (L)	Total debt divided by total equity	Gonzalez et al. (2014), Gull et al. (2018), Ittonen et al. (2013), Lakhal et al. (2015), Omoye et al. (2014), Peni & Vahamaa (2010), Susanto (2016), Zalata et al. (2018).	Annual report
Liquidity (LQ)	Measured by current ratio	Elshandidy et al. (2013).	Capital IQ
Sales growth (SG)	Percentage change in aggregate sales	Gonzalez et al. (2014), Gull et al. (2018), Ittonen et al. (2013), Lakhal et al. (2015), Omoye et al. (2014), Peni & Vahamaa	Capital IQ

		(2010), Susanto (2016), Zalata et al. (2018).	
Cash flows (CF)	Cash flow from operations	Gonzalez et al. (2014), Gull et al. (2018), Ittonen et al. (2013), Lakhal et al. (2015), Omoye et al. (2014), Peni & Vahamaa (2010), Susanto (2016), Zalata et al. (2018).	Capital IQ
Dividends per share (DPS)	Dividing the dividend on the actual number of shares	Elshandidy et al. (2013), Kasanen et al. (1996), Mohammad et al. (2001).	Capital IQ
Firm losses (FL)	Dummy variable that equals one if the firm's net income is negative and zero otherwise	Gonzalez et al. (2014), Gull et al. (2018), Ittonen et al. (2013), Lakhal et al. (2015), Omoye et al. (2014), Peni & Vahamaa (2010), Susanto (2016), Zalata et al. (2018).	Annual report
Industry (CID)	Industry type 'Dummy'	Gonzalez et al. (2014), Gull et al. (2018), Ittonen et al. (2013), Lakhal et al. (2015), Omoye et al. (2014), Peni & Vahamaa (2010), Susanto (2016), Zalata et al. (2018).	Annual report
Years	Dummy	Gonzalez et al. (2014), Gull et al. (2018), Ittonen et al. (2013), Lakhal et al. (2015), Omoye et al. (2014), Peni & Vahamaa (2010), Susanto (2016), Zalata et al. (2018).	Annual report

Table 12: The variables of the firm performance model

Variable	***Measurements***	***References***	***Source***
Dependent variables			
1- Return on Assets (ROA)	Profits divided by total assets		Capital IQ
2- Return of Equity (ROE)	Net income divided by shareholders' equity		Capital IQ
3- Tobin's Q (TQ)	The ratio of the market value of a firm's assets (as measured by the market value of its outstanding stock and debt) divided by the replacement cost of the business' assets (book value)		Capital IQ
Independent variables			
Gender diversity (GD)	The ratio of women directors to total board size		Annual report
Age diversity (AD)	The ratio of the director's age to the average age of directors on board. It is a dummy variable that equals one if the age is below 48 and zero if the age is 48 or above		The Public Authority for Civil Information
National diversity (ND)	The ratio of foreign directors (non-Kuwaiti) to board size		The Public Authority for Civil Information
Control variables			
Firm size (FSZ)	Log total assets	Adams & Ferreira (2009), Alshamari & Alsaidi (2014), Campbell & Minguez-Vera (2008), Carter et al. (2010), Erhardt et al. (2003), Gordini & Rancati (2017), Rose (2007)	Capital IQ

Firm age (FA)	Number of years of business operation	Alshamari & Alsaidi (2014), Campbell & Minguez-Vera (2008), Erhardt et al. (2003), Gordini & Rancati (2017), Rose (2007)	Boursa Kuwait
Family firm (FF)	Dummy variable for founding family members that equals one if the board has at least one founding family member, and zero otherwise	Ebrahim & Abdel Fattah (2015)	Annual report
Board size (BSZ)	Total number of directors	Adams & Ferreira (2009), Alshamari & Alsaidi (2014), Campbell & Minguez-Vera (2008), Carter et al. (2010), Erhardt et al. (2003), Gordini & Rancati (2017), Rose (2007)	Annual report
Board independence (BID)	The proportion of independent directors to total board	Adams & Ferreira (2009), Alshamari & Alsaidi (2014), Campbell & Minguez-Vera (2008), Carter et al. (2010), Erhardt et al. (2003), Gordini & Rancati (2017), Rose (2007)	Annual report
Role duality (DUAL)	Director also holds the CEO position	Adams & Ferreira (2009), Alshamari & Alsaidi (2014), Campbell & Minguez-Vera (2008), Carter et al. (2010), Erhardt et al. (2003), Gordini &	Annual report

		Rancati (2017), Rose (2007)	
Leverage (L)	Total debt divided by total equity	Adams & Ferreira (2009), Alshamari & Alsaidi (2014), Campbell & Minguez-Vera (2008), Carter et al. (2010), Erhardt et al. (2003), Gordini & Rancati (2017), Rose (2007)	Annual report
Liquidity (LQ)	Measured by current ratio	Abuzayed (2011), Omondi & Muturi (2013)	Capital IQ
Sales growth (SG)	Percentage change in aggregate sales	Amidu (2007)	Capital IQ
Cash flows (SF)	Cash flow from operations	Mackey et al. (2007)	Capital IQ
Dividends per share (DPS)	Dividing the dividend by the actual number of shares	Adams & Ferreira (2009), Alshamari & Alsaidi (2014), Campbell & Minguez-Vera (2008), Carter et al. (2010), Erhardt et al. (2003), Gordini & Rancati (2017), Rose (2007)	Capital IQ
Industry (CID)	Industry type ‘dummy’	Adams & Ferreira (2009), Alshamari & Alsaidi (2014), Campbell & Minguez-Vera (2008), Carter et al. (2010), Erhardt et al. (2003), Gordini & Rancati (2017), Rose (2007)	Annual report

Year	Dummy	Adams & Ferreira (2009), Alshamari & Alsaidi (2014), Campbell & Minguez-Vera (2008), Carter et al. (2010), Erhardt et al. (2003), Gordini & Rancati (2017), Rose (2007)	Annual report

5.6 OLS Assumptions

The main objective of this study is to test the effect of GD, AD and ND on EM and FP. In order to test its hypotheses, this study uses linear regression analysis, an OLS method of estimation, as its main statistical method. The analysis of variance (ANOVA) test is used to test the overall significance of the model. The adjusted R-squared measure is used to test the goodness of fit.

OLS assumes the normality of residuals, linearity, constant error variance (homoscedasticity) and no severe multicollinearity, as shown in Figures 7, 8 and 9 and Tables 15 and 16. Any violation of these assumptions makes the estimate of the predictor variables biased, inconsistent and inefficient and the statistical tests invalid.

5.6.1. Diagnosing and dealing with outliers

The presence of outlier observations can adversely influence the model parameter estimates and the results of their significance. Outliers are detected using the studentised residual measure. Furthermore, a heavily skewed distribution of the dependent variable is not desirable in terms of outliers, normality of residuals and constant error variance assumption. Therefore, the dependent variable whose distribution is heavily skewed is transformed to reduce the

degree of skewness. For example, if the distribution of the dependent variable is positively skewed, then the log transformation is more likely to produce valid results that satisfy normality and other assumptions of the regression analysis (Baltagi, 1995, 2008; Baltagi et al., 2003). (For example, see the regression tables below before Table 13 and after excluding the outlier and transformation, with 40 outliers from Table 14.)

Table 13: Before dealing with the outliers

KothariABS	Coef.	St.Err.	t	p-value	Sig
Gender Diversity	-0.005	0.011	-0.51	0.614	
Age Diversity	0.006	0.002	3.37	0.001	***
National Diversity	-0.012	0.005	-2.13	0.034	**
Total Assets	0.000	0.000	0.30	0.762	
Firm Age	0.000	0.000	-0.09	0.927	
Leverage	0.000	0.000	1.00	0.319	
Family firms	-0.007	0.002	-3.66	0.000	***
Board size	-0.001	0.001	-0.92	0.360	
Independent	-0.007	0.013	-0.51	0.614	
Duality	-0.003	0.002	-1.44	0.150	
Cash Flows	0.000	0.000	0.46	0.644	
Current Ratio	0.000	0.000	-0.53	0.599	
Sales Growth	0.000	0.000	-0.81	0.418	
DividendsperShare	-0.009	0.048	-0.18	0.859	
Firms Loss	-0.004	0.002	-1.78	0.076	*
1.BasicMeterials	-0.004	0.006	0.60	0.547	
1.RealEstate	-0.005	0.004	-1.20	0.231	
1.Industrials	0.003	0.004	0.81	0.420	
1.ConsumerGood	-0.008	0.007	-1.30	0.195	
1.ConsumerServic	-0.003	0.004	-0.75	0.453	
1.HealthCare	-0.011	0.006	-1.74	0.083	*
1.Technology	-0.009	0.010	-0.90	0.366	
1.Telecom	-0.010	0.006	-1.70	0.089	*
1.Y2011	-0.002	0.004	-0.43	0.665	
1.Y2012	-0.002	0.004	-0.47	0.636	
1.Y2013	-0.001	0.004	-0.38	0.706	
1.Y2014	0.000	0.004	-0.04	0.970	
1.Y2015	0.001	0.004	0.27	0.790	
1.Y2016	0.001	0.004	0.38	0.702	
1.Y2017	0.000	0.004	0.06	0.954	
Constant	0.027	0.006	4.20	0.000	***

Adj R-squared	0.051	Number of obs	734
R-squared	0.090	Prob > F	0.000
F-test	2.322		

**** p<0.01, ** p<0.05, * p<0.1*

Table 14: After dealing with the outliers

logkothari	Coef.	St.Err.	t	p-value	Sig
Gender Diversity	-0.275	0.335	-0.82	0.411	
Age Diversity	0.178	0.060	2.96	0.003	***
National Diversity	-0.048	0.171	-0.28	0.780	
Total Assets	0.000	0.000	2.09	0.037	**
Firm Age	-0.010	0.003	-3.78	0.000	***
Leverage	0.001	0.000	2.26	0.024	**
Family firms	-0.216	0.064	-3.35	0.001	***
Board size	0.034	0.021	1.63	0.104	
Independent	0.324	0.413	0.79	0.432	
Duality	-0.006	0.058	-0.11	0.912	
Cash Flows	0.002	0.002	1.30	0.195	
Current Ratio	-0.013	0.004	-3.60	0.000	***
Sales Growth	0.000	0.000	-1.36	0.175	
DividendsperShare	0.983	1.524	0.65	0.519	
Firms Loss	-0.154	0.069	-2.22	0.027	**
1.BasicMeterials	0.502	0.187	2.68	0.008	***
1.RealEstate	-0.011	0.121	-0.09	0.928	
1.Industrials	0.047	0.129	0.36	0.715	
1.ConsumerGood	-0.135	0.201	-0.67	0.503	
1.ConsumerServic	-0.178	0.142	-1.25	0.211	
1.HealthCare	-0.881	0.201	-4.38	0.000	***
1.Technology	0.312	0.311	1.00	0.316	
1.Telecom	-0.644	0.183	-3.53	0.000	***
1.Y2011	-0.014	0.113	-0.12	0.902	
1.Y2012	0.015	0.112	0.13	0.894	
1.Y2013	-0.095	0.113	-0.84	0.402	
1.Y2014	-0.069	0.115	-0.60	0.550	
1.Y2015	-0.016	0.113	-0.14	0.888	
1.Y2016	0.062	0.114	0.55	0.583	
1.Y2017	0.037	0.116	0.32	0.748	
Constant	-4.259	0.204	-20.83	0.000	***

Adj R-squared	0.138	Number of obs	694
R-squared	0.176	Prob > F 0.000	
F-test	4.720		

**** p<0.01, ** p<0.05, * p<0.1*

5.6.2. Normality and linearity

The linearity of the relationship is assessed by inspecting the plot of the residual values and the predicted values of the dependent variable. The residual plot indicates a random scatter of points with neither a nonlinear or a curvilinear pattern that indicates the linearity assumption is satisfied. This plot also shows no outliers or a random pattern that indicates an asymmetric distribution of residuals, which also means that the residuals are normally distributed (see the homoscedasticity figure number 8). Also, the literature argues that larger sample size can address non-normality. First, "for sample sizes that are sufficiently large, violation of the normality assumption is virtually inconsequential" (Brooks, 2008, p.164). Second, the null hypothesis of normality of data can be rejected by the large sample size (Abdel-Fattah, 2008, p.256).

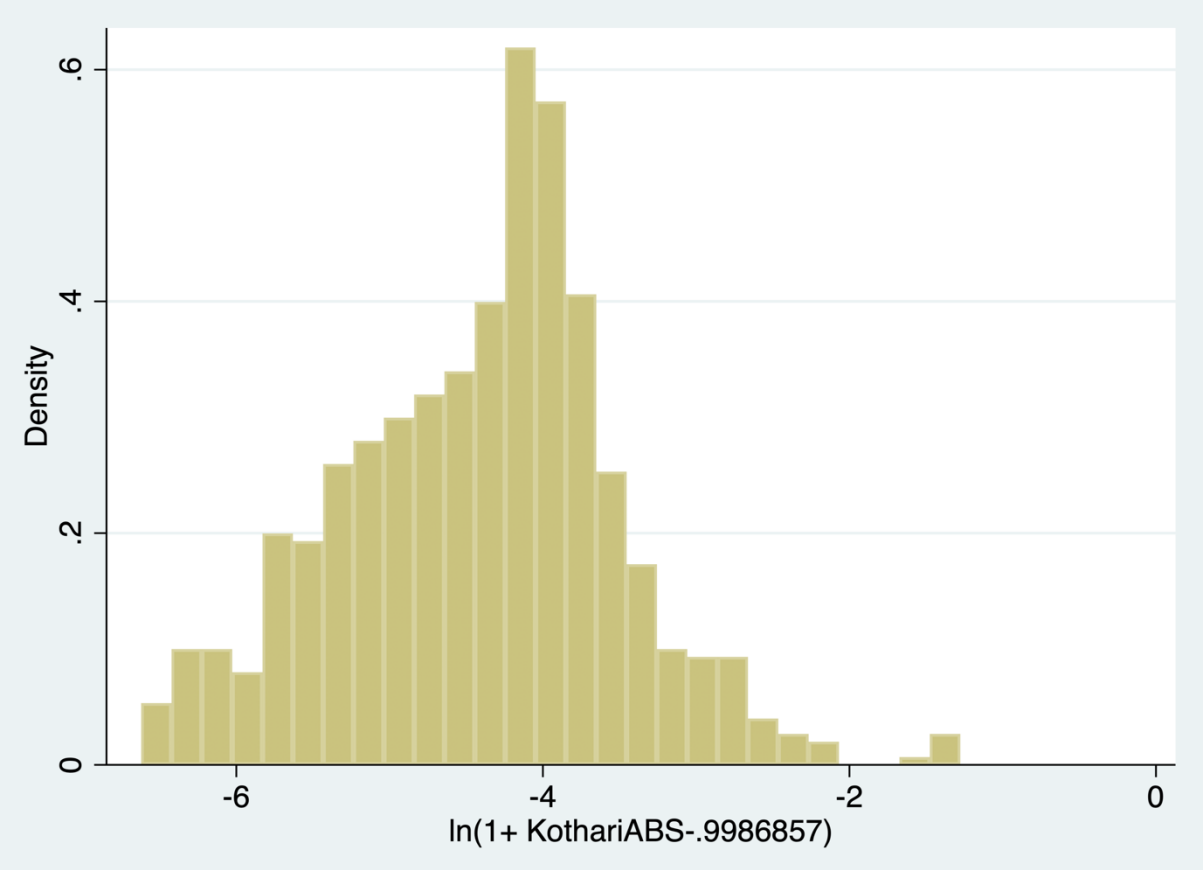

Figure 6: Normality test

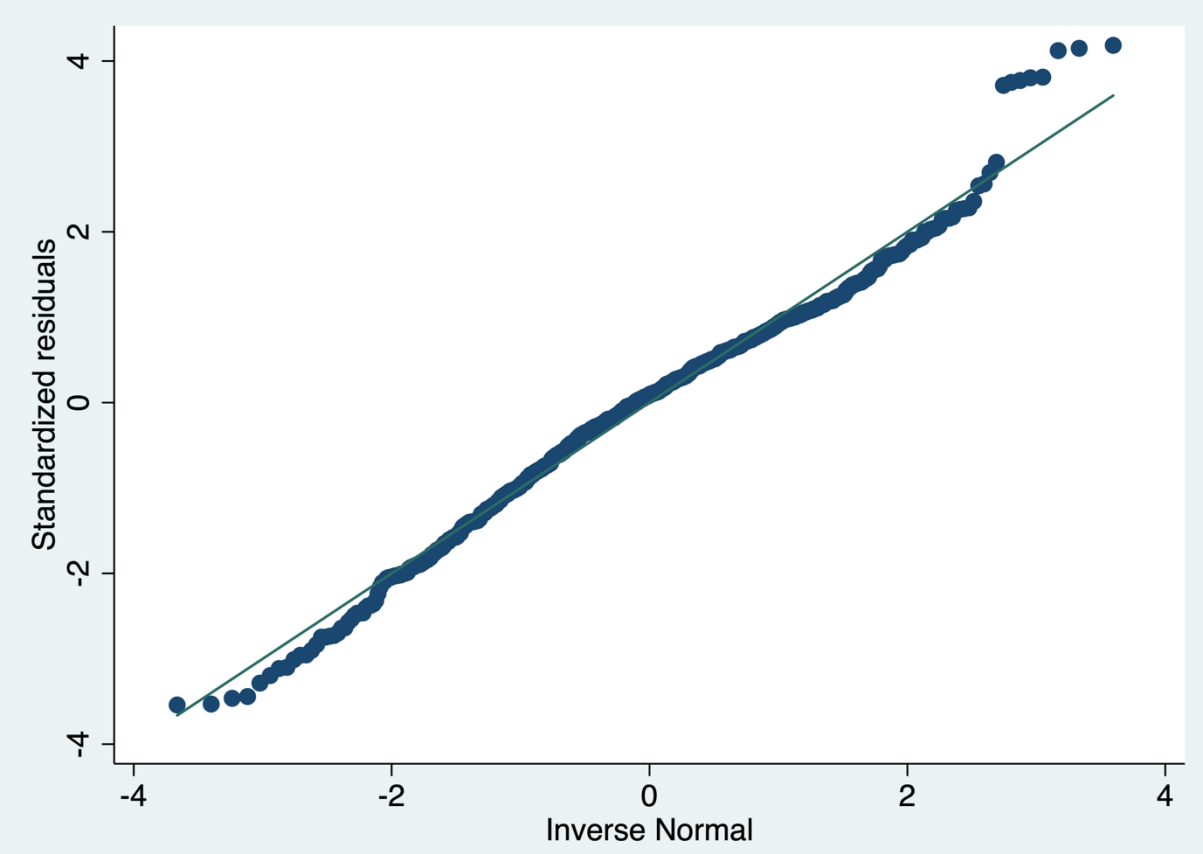

Figure 7: Linearity test

5.6.3. Heteroscedasticity

The constant error variance or homoscedasticity assumption is critical for the valid use of the ANOVA in a regression analysis. The violation of constant error variance is termed heteroscedasticity. The residual plot is considered healthy when evidence exists of the constant error variance and linearity and when there is a random scatter of points with no visible curvilinear pattern, which indicates a non-linear association or a cone-shaped pattern implying the violation of the constant error variance or the problem of heteroscedasticity. The Brush-Pagon test, which is a formal method of testing heteroscedasticity in regressions, is used to test heteroscedasticity. For the test to indicate no heteroscedasticity, the Bruch-Pagon test must be non-significant ($p > 0.05$) (Haier et al., 2010). If the results of the Brusch-Pagon test indicate heteroscedasticity, then the study uses the robust standard errors that are consistent with the

heteroscedastic error distribution. However, the result in the test below is P equals 0.5124, which is not significant and confirms that there is homoscedasticity.

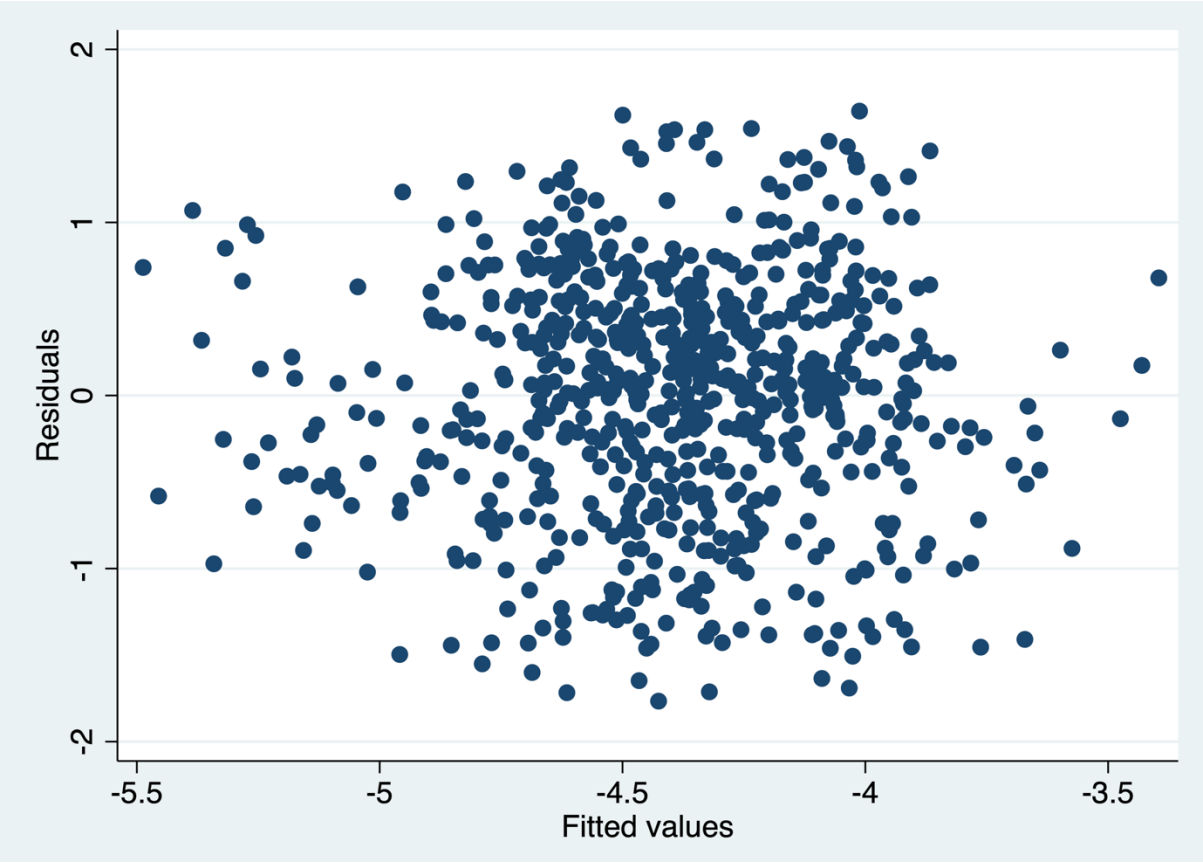

Figure 8: Heteroscedasticity test

```
Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
         Ho: Constant variance
         Variables: fitted values of logkothari

         chi2(1)      =     0.43
         Prob > chi2  =   0.5124
```

5.6.4 Multicollinearity

Multicollinearity refers to the problem of highly correlated predictor variables in the regression model. Highly correlated predictor variables can induce inflation in the standard error of the estimators of the effects from the predictor variable. The variance inflation factor (VIF) is used to measure the severity of multicollinearity. VIF is the number of times the variance of the estimator is inflated compared to a perfectly independent predictor variable scenario. VIF = 1 / TL, where TL is the tolerance level of the predictor variable. A cut-off value of five or higher for the VIF generally indicates severe multicollinearity in the regression model (Haier et al., 2010). The VIF test below (Table 15) shows that the highest VIF is 4.63 for the dummy real estate and therefore there is no multicollinearity problem. Another test uses a correlation matrix and also confirms no multicollinearity. According to Bryman and Cramer (1997), Gujarati and Porter (2009) and Ho and Wong (2001), a serious collinearity problem exists when the correlation between any two independent variables exceeds 80%. The highest correlation in the correlation matrix (Table 16) is between board size and firm age at 30%, a percentage confirming that there is no multicollinearity. At the same time, this thesis seeks to solve the endogeneity problem via a fixed effect, a random effect and a pooled OLS and chooses a random test as most appropriate as per the Hausman test, which helps to solve the problem of heteroscedasticity and auto-correlation (Ait-Sahalia & Xie, 2019; Arellano, 2003; Baltagi, 1995, 2008; Baltagi et al., 2003; Gujarati & Porter, 2009). In addition, this study uses GMM and 2SLS to solve the problems of endogeneity and causality (Ait-Sahalia & Xie, 2019; Baltagi, 1995, 2008; Baltagi et al., 2003).

Table 15: The variance inflation factor (VIF) test

Variables	VIF
Gender	1.17
Age Diversity	1.17
National D	1.29
Total Assets	1.06
Firm Age	1.41
Laverage	1.09
Family firms	1.34
Board size	1.19
Independent	1.14
Duality	1.08
CashFlows	1.10
Current ratio	1.10
Sales growth	1.05
Dividends per share	1.37
Firms Loss	1.23
i.BasicMeter~1	1.78
i.RealEstate1	4.63
i.Industrials1	3.97
i.ConsumerGo~1	1.63
i.ConsumerSe~1	2.74
i.HealthCare1	1.55
i.Technology1	1.26
i.Telecommun~1	2.31
i.Y2011	1.78
i.Y2012	1.83
i.Y2013	1.85
i.Y2014	1.82
i.Y2015	1.86
i.Y2016	1.88
i.Y2017	1.95
Mean VIF	**1.69**

Table 16: Correlation matrix

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)
(1) logModified Jones	1																			
(2) log Kothari	1	1																		
(3) log ROA	0.20	0.20	1																	
(4) log ROE	0.20	0.20	0.92	1																
(5) log Tobin Q	0.19	0.19	0.43	0.52	1															
(6) Gender Diversity	-0.06	-0.06	0.11	0.09	0.21	1														
(7) Age Diversity	0.08	0.07	-0.05	-0.01	0.01	0.07	1													
(8) National Diversity	-0.08	-0.08	-0.10	-0.04	-0.19	-0.10	0.00	1												
(9) Total Assets	0.10	0.10	0.05	0.12	0.08	-0.10	0.08	0.06	1											
(10) Firm Age	-0.13	-0.13	0.02	0.02	-0.10	-0.06	-0.13	-0.04	-0.05	1										
(11) Leverage	0.05	0.05	-0.05	-0.04	-0.02	-0.01	-0.14	0.02	0.04	0.06	1									
(12) family firms	-0.05	-0.04	0.03	0.00	-0.01	0.00	-0.13	0.03	0.00	0.24	0.02	1								
(13) Board size	-0.04	-0.04	-0.10	-0.11	-0.18	-0.02	-0.16	-0.07	-0.02	**0.30**	0.05	0.15	1							
(14) Independent	0.08	0.08	0.03	-0.01	-0.11	-0.02	0.01	0.00	-0.04	-0.05	0.04	0.07	-0.06	1						
(15) Duality	0.01	0.01	0.07	0.06	0.14	0.14	-0.04	-0.17	-0.07	-0.06	0.04	0.02	-0.04	0.09	1					
(16) Cash Flows	0.08	0.08	0.04	0.01	-0.02	-0.06	0.05	-0.07	-0.03	0.02	0.01	0.06	0.00	0.06	0.06	1				
(17) Current RATIO	-0.07	-0.07	0.11	0.08	0.08	-0.01	0.13	-0.06	-0.08	-0.10	-0.15	-0.11	-0.18	-0.06	-0.02	0.02	1			
(18) SALES GROW	0.01	0.01	-0.04	-0.05	0.00	0.02	0.07	-0.02	-0.02	-0.05	0.01	-0.07	0.00	-0.01	-0.04	0.02	-0.05	1		
(19) DividendsperS~e	0.06	0.06	0.05	0.03	-0.06	-0.02	-0.08	0.08	-0.04	-0.06	0.02	0.02	-0.04	-0.09	0.04	0.03	-0.01	0.03	1	
(20) Firms Loss	-0.03	-0.03	-0.01	-0.02	0.01	0.02	0.04	0.12	0.00	-0.10	0.04	-0.20	0.04	-0.04	0.01	0.01	-0.01	0.00	-0.25	1

5.7 How to address endogeneity and causality problems?

The endogeneity and causality effects are relatively significant points to consider in any study when the researcher is studying the relationship between BD and EM and between BD and FP. The reason for this consideration is because the two aspects can have relative effects on the results. In order to ensure that the results are consistent, there is a need to study these problems and how they affect the estimation between these relationships.

First of all, endogeneity can be defined as explanatory variables that are simultaneously able to affect BD and EM and FP (Roberts & Whited, 2013, pp. 493-572; Wooldridge, 2010). In this regard, the independent variables' error terms can be identified as related and the OLS regression can be regarded as ineffective in estimating how the parameters relate to each other in this equation (Al-Saidi, 2010; Hamilton & Nickerson, 2003; Roberts and Whited, 2013, pp. 493-572; Thrikawala, Locke, & Reddy, 2017). Due to the endogeneity problem, the estimation of the relationships between BD and EM and between BD and FP do not comply with the presumptions of the OLS regression model (Solakoglu & Demir, 2016). Apparently, when the OLS regression is used to estimate the relationship of such a simultaneous equation, the effect of reverse causality can be identified. This explains why this estimation cannot be used. The OLS regression cannot be utilised in estimating a simultaneous equation because the endogeneity problem leads to the variables being related in a reverse causality. Consequently, this makes it difficult to establish the relationship between the parameters of the equation (Chbib, 2015; Roberts & Whited, 2013, pp. 493-572).

According to Carter, D'Souza, Simkins and Simpson (2010), there is no significant relationship between BD and how a firm will perform in the future. BD and FP tend to be endogenous. This premise is additionally supported by the fact that the inclusion of women on a firm's board

does not mean that the FP will be enhanced (Ionascu, Ionascu, Sacarin, & Minu, 2018). In this regard, BD is endogenous to FP. In this case, it is not only the EM and FP that affect BD; there also tend to be situations whereby firms whose boards are diversified perform well-indicating endogeneity (Boubaker, Dang, & Nguyen, 2014; Marinova, Plantenga, & Remery, 2015; Roberts & Whited, 2013, pp. 493-572). Therefore, when investigating the relationship between BD and FP, it is essential to eliminate the endogeneity problem. In order to address this endogeneity, the use of estimation techniques, such as 2SLS and 3SLS regression, GMM estimation and fixed effects, produce misleading information regarding the relationship (Schultz, Tan, & Walsh, 2010; Wooldridge, 2010). In a study of Nigerian firms, Shuaibu (2018) found no significant relationship between BD and EM. However, another study identified an exogenous relationship between BD and EM (Einer & Soderqvist, 2016). In addition, Wahid (2018) has confirmed that fewer instances of financial misconduct in diversified firms do not result from having more females on the board, but rather the group's dynamics. This confirms that there is an endogenous relationship between BD and EM.

Second, causality can be defined as the direction taken in relation to the effect between different parameters in an equation (Agrawal & Kneber, 1996; Wooldridge, 2010). Some authors have stated that the causal relationship between the two variables can be reversed, in which case EM and FP affect BD (Carter et al., 2003; Chiswick & Miller, 1995). Wahid (2018) has noted that BD may result from the group dynamics that arise from a lack of financial misconduct. Firms that have high performance and proper EM are likely to have significantly diversified boards that lead to reverse causality. Another study by Firoozi, Magnan and Fortin (2016) has found no relationship between BD and better financial reporting. In this regard, the empirical estimation of the effect of EM and FP from a single mechanism of BD can lead to inconsistent results. Firms that have better EM and FP are likely to elicit interest from diversified personnel.

This indicates that the relationship between BD and EM and between BD and FP can take any direction. The empirical results of regression analyses indicate that the causal effect of both variables in the equation can take any direction and, according to Gull (2018), this confirms endogeneity. Due to the causality explanation, there is an endogenous relationship between the two variables. On the other hand, as stated below, Gujarati (2009, pp. 652-653) state that causality is not necessary and the relationship may not be reverse and affectted:

> *The time does not run backward. That is, if event A happens before event B, then it is possible that A is causing B. However, it is not possible that B is causing A. In other words, events in the past can cause events to happen today. Future events cannot.*

Based on the above arguments, OLS regression estimates create misleading results regarding the relationship between the two variables. This indicates that the empirical estimates may fail to give coefficients that are consistent with the model. This study investigates the association between BD and EM and between BD and FP and its variables are determined jointly during the estimation. In order to resolve the causality and endogeneity problems succinctly, previous studies (Ammari, Reguera-Alvarado, de Fuentes, & Laffarga, 2017; John, Makhija, & Ferris, 2019; Kadria & Ellouze, 2014; Schultz et al., 2010; Thrikawala et al., 2017; Wellalage & Locke, 2012; Wellalage, Locke, & Acharya, 2018; Wintoki et al., 2012) have recommend the use of GMM and 2SLS (Abdullah, 2007; Agrawal & Knoeber, 1996; Al-Saidi, 2010; Al-Saidi & Al-Shammari, 2013; Bahadur, 2016; Carter et al., 2003; Chen, Leung, & Goergen, 2017; Ho, Lim, Reza, & Xia, 2017; Solakoglu & Demir, 2016) and three-stage least squares (3SLS) (Bhagat & Bolton, 2008; Gugler, 2003), which are dynamic and robust in eliminating the effects of using OLS regression and fixed effects techniques (Campbell & Minguez-Vera, 2008; Einer & Soderqvist, 2016; Elshandidy, Fraser, & Hussainey, 2015; Enache & Hussainey,

2019; Shuaibu, 2018). Additional studies (see Table 17) have helped produce plausible correlations. These models are discussed later in order to explain how they control the problems.

Table 17: Previous studies that show causality and endogeneity solutions

Number	Author (s)	Region	Method for testing causality and endogeneity	Instrument test	Variables
1	Gull (2018)	France	GMM	Propensity score matching	Earnings management
2	Wellalage et al. (2018)	Australia, France, UK, USA	GMM	None	Earnings management
3	John et al. (2019)	England	GMM	None	Firm performance
4	Ammari, Kadria & Ellouze (2014)	France	GMM	ROA, ROE, Tobin's Q and market to book	Firm performance
5	Chbib (2015)	UK	2SLS	None	Board size and board independent ratio
6	Low et al. (2015)	Hong Kong, South Korea, Malaysia, Singapore	2SLS	None	Female managers
7	Reguera-Alvarado, de Fuentes, & Laffarga (2017)	Spain	GMM	None	Firm performance
8	Wellalage & Locke (2012)	Sri Lanka	GMM	None	Earnings management
9	Agrawal & Knoeber (1996)	USA	2SLS	Tobin's Q	control mechanisms
10	Abdullah (2007)	UK	2SLS	Hausman test	Governance variables
11	Campbell & Minguez-Vera (2008)	Spain	Fixed effect and 2SLS	Hausman test	Blau and Shannon indexes
12	Carter et al. (2003)	USA	2SLS	None	Governance variables
13	Solakoglu & Demir (2016)	Turkey	2SLS	Tobin's Q	Firm performance
14	Chen et al. (2017)	UK	2SLS	None	Earnings management
15	Gugler (2003)	Austria	3SLS	none	Corporate governance variables
16	Ho et al. (2015)	China	2SLS	None	Firm performance
17	Bahadur (2016)	India	2SLS	None	Firm performance

18	Al-Saidi (2010)	Kuwait	2SLS	Hausman test	Several corporate governance principles
19	Al-Saidi & Al-Shammari (2013)	Kuwait	2SLS	Hausman test	Corporate governance variables
20	Schultz et al. (2010)	Australia	GMM	None	Firm performance
21	Shuaibu (2018)	Nigeria	Fixed effects	None	Earnings management
22	Enache & Hussainey (2019)	USA	Fixed effects	None	Governance variables
23	Elshandidy et al. (2015)	Germany, UK & USA	Fixed effects	None	Various accounting measures
24	Einer & Soderqvist (2016)	Norway	Fixed effects	None	Earnings management
25	Ionascu et al. (2018)	Romania	Simultaneous equation models	Tobin's Q	Firm performance
26	Boubaker et al. (2014)	France	2SLS	Tobin's Q	Firm performance
27	Bhagat & Bolton (2008)	USA	3SLS	Hausman	Ownership, performance, governance and capital structure
28	Gerged et al. (2019)	Kuwait	2SLS, GMM & fixed effects	None	Earnings management

5.8 Summary

This chapter has explained the methodology used in this research study in detail. First it described the sample and the data, followed by the study philosophy. Next it described and defined the dependent (EM and FP), independent (GD, AD and ND) and control variables (firm size, age, family firm, the board size, board independence, role duality, leverage, liquidity, sales growth, cash flows, dividends per share, firm losses and industry type) used in this study. Next the chapter presented the two research models, followed by the OLS assumptions used to test the effect of GD, AD, and ND on EM and FP. These assumptions were diagnosing and dealing with outliers, normality and linearity, heteroscedasticity and multicollinearity. Finally, the chapter considered how to solve the problems of endogeneity and causality.

6.0 Chapter Six: Findings

6.1 Introduction

This chapter presents the findings of the impact of BD in the form of GD, AD and ND on EM and FP with respect to Kuwait's non-financial firms listed on Boursa Kuwait between 2010 and 2017. This study uses the modified Jones and Kothari models to measure EM and ROA, ROE and TQ to measure FP. It then analyses the data using OLS, random effects, GMM, 2SLS and Tobit. Moreover, this chapter contains an additional analysis of standard deviation and range for AD. Finally, this study tests the effect of the interaction between independent directors and family firm with the independent variables on EM and FP.

6.2 Descriptive statistics

Descriptive statistics are a coefficient of data analysis that statisticians use to present information in a meaningful way. These tools are used to show, describe and summarise patterns arising from specific data sets. Understanding raw data presents a significant challenge, especially where these are contained within large volumes of data sets. The simple interpretations that arise from descriptions give meaning to such data sets and relate them to real-life situations. Further, descriptive statistics focus on the specific aspects of data sets like their central tendency and their spread from the mean, minimum and maximum. It is easy to understand means and extremities when data are presented in a simple manner using real-life aspects.

Table 18: Descriptive statistics

Variable	Obs	Mean	Min	Max
Modified Jones	824	.017	0	.277
Kothari	759	.017	0	.277
ROA	824	1.556	-48.645	33.515
ROE	824	2.198	-104.984	135.613
TQ	823	1.02	.252	8.072
Gender	824	.041	0	.6
Age Diversity	824	.535	0	1
National D	824	.113	0	.857
Total Assets	824	178.43	1.524	3709.937
Firm Age	824	24.723	2	63
Leverage	823	53.38	0	762.923
Family firms	824	.417	0	1
Board size	824	6.028	2	11
Independent D	824	.022	0	.5
Duality	824	.415	0	1
Cash Flows	817	-1.482	-217.576	103.352
Current ratio	812	3.008	.003	96.7
Sales growth	803	23.359	-397.345	3290.867
Dividendsp~e	823	.01	0	.2
Firms Loss	824	.267	0	1
Y2010	824	.125	0	1
Y2011	824	.125	0	1
Y2012	824	.125	0	1
Y2013	824	.125	0	1
Y2014	824	.125	0	1
Y2015	824	.125	0	1
Y2016	824	.125	0	1
Y2017	824	.125	0	1
BasicMeter~1	824	.039	0	1
RealEstate1	824	.398	0	1
Industrials1	824	.252	0	1
ConsumerGo~1	824	.029	0	1
ConsumerSe~1	824	.136	0	1
HealthCare1	824	.029	0	1
Technology1	824	.01	0	1
Telecommun~1	824	.049	0	1
OilGas1	824	.058	0	1

Table 18 illustrates the values of different variables relating to firms. This information is critical in evaluating firms' internal and external environments. The data set utilises the tools of descriptive statistics and includes means, maximums and minimums. The data set also incorporates observation values ranging from 759 to 824. As shown in Table 18, the first variable is the accrual detection of firm earnings from using the modified Jones model (1995). With regard to Table 18, this model shows a mean EM of 1.70%. The maximum EM is approximately 27.74% and the minimum EM is 0. In this regard, EM refers to the strategies that firms' managers use to manipulate revenues and returns in order to achieve their goals.

Table 18 shows that some firms do not practise EM. In this regard, the aim of smoothing earnings is to present a desirable picture to analysts and prospective investors. Zalata and Roberts (2017) state that the misclassification of essential earnings is a method used to manipulate financial reports.

As shown in Table 18, the average manipulation of earnings is 1.71% according to the modified Jones model. However, the Kothari model presents the same averages for EM. From the data set, the Kothari model's results show an average of 1.71%. This model tries to enhance predictions by adding an intercept and managing the effects of FP (Kothari et al., 2005). However, the maximum EM of 27.74% is similar to the result of using the modified Jones model. The Kothari model results also show a higher minimum value of EM at 0.0000179. Nonetheless, due to their insignificant values, there are negligible differences in the minimum EM.

From the data set, the ROA average, which is the measure that indicates FP, is 1.556. Firms that make effective use of their assets to generate income have high ROA. However, when firms make losses, the ROA can be negative. Table 18 shows that firms with the highest ROAs have values of 33.515 and that firms with the lowest ROAs have values of -48.645. The mean ROA value is 1.556 and shows that, when compared to its ROA, the firm makes little income. These figures offer essential information about the efficiency of both a firm and the industry. Therefore, the source of the above data may indicate an inefficient firm or an industry with a low income in comparison to its ROA.

Table 18 indicates 2.198 returns on ROE. The maximum ROE is 135.613 and the minimum ROE is -104.984. The calculation of ROE involves dividing the net income by the

shareholders' equity. A firm's ROE represents the returns on its net assets. It is also an illustration of the firm's ability to create profits with its assets. While the ROA indicates the ratio of income generation, ROE indicates the profits received by investors. As shown in Table 18, the mean, minimum and maximum values for ROE are higher than those of ROA. The ROEs are always higher than those for ROAs because they represent the total assets after the removal of liabilities (Samphantharak & Townsend, 2010, p. 89-93).

Table 18 shows that the TQ mean value is 1.02. The TQ ratio shows the relationship between the firm's market valuation and its intrinsic value. When the TQ value is low (0 to 1), the cost of replacing assets is higher than the total amount of the stock. Such figures show that the firm's stock is undervalued. As shown in Table 18, 1.02 indicates that the assets are slightly more valuable than the capital. Statisticians measure the TQ value by dividing the market value of the firm's assets by its replacement costs. When the TQ value is greater than 1, the costs of replacing the assets are lower than their prices. Thus, high TQ values indicate that the firm's stock is undervalued. Table 18 shows that the TQ's maximum value is 8.07 and the minimum value is 0.25.

As shown in Table 18, the mean GD is 4.12% or 0.0412. GD refers to the ratio of female managers and directors to the total size of a firm's board. From the values in the above-mentioned data, many firms have been unable to achieve gender equality. Men still dominate the firms' top positions. According to past research, firms dealing with products such as sanitary pads have more women in their senior management positions, such as CFOs (Peni & Vähämaa, 2010). The maximum value of gender diversity is 0.6, while the minimum is 0. Zero suggests that firms have no female directors on their boards. Studies also indicate that there are a limited number of women in areas such as auditing (Ittonen et al., 2013).

Similarly, Gull et al.'s (2018) findings show a mean of 10.72%, a maximum of 75% and a minimum of zero. Consequently, the mean and maximum results are slightly higher and the minimum result is the same. In addition, Gull et al.'s (2018) findings have similar descriptive statistics in relation to the number of women on boards. Furthermore, a six-year-old Kuwaiti study covering the period from 2009 to 2011 has shown a mean of 47%, a maximum of 60% and a minimum of zero (Al-Shammari & Al-Saidi, 2014). Another Kuwaiti study covering the period from 2012 to 2014 has revealed that the number of female directors on boards is 0.492, which is about 50% (Issa et al., 2018). The same study reports evidence that the "number of women on boards indicates that women have very limited seats number in boardroom" (Issa et al., 2018). Overall, both gender equality and the empowerment of women have constituted significant issues for most firms. Despite the Kuwaiti Government's legislative efforts, women continue to face substantial barriers in most firms. They must encounter discrimination, such as lower job groups, less pay for equal work and gender-insensitive company policies (Adel & Alqatan, 2019).

Further, Table 18 shows a mean AD of 0.535, which is calculated by using the ratio of a director's age to the average age of the board members. From the data set, there is high AD, with an average of 53.5%. The maximum AD is 1, while the minimum AD is 0. A value of 1 illustrates that a director is younger than 48 years. On the other hand, the minimum age diversity is 0 when directors are aged 48 years old and above. In discussing AD, descriptive statistics use 0 or 1 as dummy figures. These form categories that are mutually exclusive and that are more effective in describing the influence of some statistical variables. Moreover, Carter et al.'s (2003) findings of American firms show that 59 years is the mean age of directors, about five years older than this study's findings.

ND is the ratio of foreign directors to the size of the board. The average ND is 11.3%. The mean figure shows that the firm has a limited number of top foreign directors. As shown in Table 18, the maximum ND is 85.71% and the minimum is 0%. This means that there are firms with high numbers of non-Kuwaiti directors on their boards. However, some firms do not have any non-Kuwaiti directors on their boards. Furthermore, Gull et al.'s (2018) findings contain similar descriptive statistics showing the mean as 9.37 %, the maximum as 100% and the minimum as zero. These findings support this study's descriptive statistics. The findings of another study examining the situation in the UK, the USA, Canada, France, Germany, Italy, the Netherlands, Spain and Sweden show a mean of 18% with respect to ND on the BODs.

The average board size from the data set is 6. Therefore, many firms' BOD consist of six members. Board size has several effects on a firm. First, it determines the range of expertise that governs the firm. More directors mean a greater field of experience in different areas of management. According to the data set, the minimum number of board directors is two, whereas before the 2013 KCGC the minimum board size was three. Thereafter, five board members became the minimum number, with 11 the highest figure reported. These numbers are lower than Susanto's (2016) findings of a maximum board membership of 15.

As shown in Table 18, the average number of independent directors is 2.24%. Fifty per cent is the highest number of independent directors. In such cases, half of the members of the board are independent and do not have any material relationship with the firm apart from their role of sitting on the board. The minimum value of independent directors is 0.

As shown in Table 18, the average rate of duality is 41.5%. The data show that nearly 50% of directors are also their firms' CEOs. The maximum value for duality is 1 and the minimum

value is 0. These are mutually exclusive dummy figures. Cases with directors additionally operating as CEOs are represented with 1, while firms where the director is not a CEO are represented by 0. The average number of firms owned by families is 41.75%.

A family firm is a firm in which at least one member of the founding family is on the board or holds a management position (Ebrahim & Fattah, 2015). Therefore, the variable can be represented by dummy figures where the maximum value is 1 and the minimum value is 0, which means that nearly half of the firms are family firms.

According to the data set, the average firm age is 24.7 years. Firm age refers to the number of years that a firm has been in operation. Based on the data set, many Kuwaiti non-financial firms listed on Boursa Kuwait started around 25 years ago. From the data set, 63 is the longest number of years in which a firm has been active; the shortest period is two years. The firms' average age offers essential information regarding the industry. The data mean that firms take more than 25 years to attain stability. Furthermore, 25 years may be the maximum age above which the rate of failure increases. Before 25 years, there is a high rate of closure among firms in the industries.

The average value of firm size, as measured by firms' total assets, is 178.43. A firm's total assets represent its liabilities added to the shareholders' equity. According to the data set, the maximum value of a firm's total assets is 3,709.937 while the minimum is 1.52. These values are vital because they illustrate what firms own. Furthermore, a firm can convert assets into cash in order to increase its liquidity. These data also means that all firms have assets.

Table 18 also shows the degree of leverage in the industry. In order to obtain leverage, economists divide a firm's total debt by its total equity. The data set shows an average leverage of 53.38, with 762.923 as the maximum and 0 as the minimum. Leverage is a vital indicator of a firm's FP. The value shows the amount of debt that a firm uses to fund its activities. Investments that use leverage are also critical in increasing its value to shareholders. Besides, the data set shows that some firms do not have any leverage.

The data set also illustrates a current average ratio of 3, a maximum value of 762.923 and a minimum value of 0. The identification of the current rates involves the division of the firm's current assets by its liabilities. A firm's current ratio indicates its liquidity or efficiency, which is the proxy of risk. This is critical information because it shows the firm's ability to use its existing assets to meet its short-term liabilities. It can be seen from the data set that many firms have limited abilities to pay off their short-term debts. In most cases, firms have less time to raise funds for such needs. Therefore, it is of critical importance that a firm has readily available current assets like cash and other items.

Sales growth is another critical variable when studying a firm's FP and EM. Table 18 shows an average sales growth of 23.36. The maximum sales growth is 3,290.867 while the minimum value is -397.3448. Sales growth represents the volume increases in a firm's sales from one year to another. The indicator is also of critical importance when analysing a firm's performance. Sales growth shows the marketing team's role in increasing the firm's revenues over a specified period. Higher sales growth further indicates the firm's survival and its financial growth path.

Cash flow refers to the amount of money coming in and out of a firm. The difference between the money present before a trading period and at the end of it can additionally be used as a method to measure the firm's cash flow. Table 18 shows an average cash flow of -1.482, a maximum cash flow of 103.35 and a minimum cash flow of -217.56, meaning that the average of firms used their money, so there was no cash flow, but they used them out of the firm.

The data set also shows that the average dividend per share is 1.05%. The maximum dividends are 20% while the minimum dividend is 0. This means that most firms have a dividend per share, while some do not provide shareholders with any dividend. From past research, the presence of board members can reduce the challenges that result from the effect of free cash flow on EM (Susanto, Pradipta, & Djashan, 2017).

Firm losses are an indication of whether a firm is making either profits or losses. Table 18 shows an average loss of 26.7%. The maximum and minimum losses are dummy figures represented by 0 or 1. A value of 0 indicates that a company is making profits, whereas a value of 1 indicates that it is making losses. According to the mean data, most firms (73%) have profits while 27% have losses.

Descriptive statistics provide investors with an opportunity to gain an in-depth understanding of the firm's activities and to evaluate the disclosed information. It can be tiresome and challenging to conceptualise large volumes of data. A detailed description additionally compares current data with past literature. The components of descriptive statistics vary depending on the kind of information. From a firm standpoint, the standard variables that statisticians explore include the number of board members, CEO duality, family ownership, BD, EM, ROA, ROE and TQ. Understanding these variables can offer insights into emerging

trends like GD, AD and ND. Consequently, the construction of descriptive statistics is an essential technique in relating data to real-life firm issues.

6.3 Results and discussion

6.3.1 Board diversity (BD) and earnings management (EM)

Tables 19 and 20 show the OLS regression and random effects between BD in the form of GD, AD, ND and EM. As explained previously, this study used the modified Jones model and the Kothari model to measure the dependent variables because, for both models, this is the natural log of absolute discretionary accruals. The independent variables and the control variables are as described previously.

Effect of gender diversity (GD) on earnings management (EM)

Table 19 represents the OLS regression and random effects; as additional analyses, this study also used 2SLS, GMM and Tobit regression (Tables 21, 22 and 23). Random effects treats OLS in relation to the heteroscedasticity and auto-correlation problems (Arellano, 2003; Gujarati & Porter, 2009). Both the OLS and random regression models have highly significant levels of Prob > F: 0.000. The coefficient of determination, represented by R-squared in the OLS model, is 17.6%; in the random effects model it is 16.6; in the adjusted R-squared model 1 it is 13.8%, consistent with most of the existing literature (e.g. Adams & Ferreira, 2009). Both models have the same number of observations: 694.

Table 19 shows the OLS regression. First, the coefficient for the GD variable is negative and statically insignificant (B1 = -0.262). This indicates that GD on boards may not be a determinant of EM. However, the random effect has a significant negative relationship at 5% (B1 = -0.262) between GD and the modified Jones model. Nevertheless, all the additional

analyses confirm the OLS regression result, which is more accurate, because 2SLS and GMM solve endogeneity and causality problems and Tobit deals with a limited dependent variable. Consequently, according to this finding, H1 can be rejected. This finding means that the number of females on a board does not affect EM.

Furthermore, agency theory is inconsistent with this result. Given that shareholders are a mix of men and women, the BOD should also consist of a mix of men and women in order to provide BD and to solve the agency theory problem such as conflicts of interest (Adams et al., 2010; Osma & Noguer, 2007; Terjesen et al., 2016; Thiruvadi & Huang 2011). Das (2019) agrees that for firms' CG practices, it is necessary to use agency theory through GD. Similar to agency theory, there is a negative relationship between GD; in other words, GD reduces EM (Hoffmann et al., 2018). Moreover, it is confirmed that because women demonstrate greater insights, resource dependence theory does not support the findings; in addition, a BOD with GD is better able to understand the needs of the entire market (Drees & Heugens, 2013; Hillman et al., 2007). Therefore, it is recognised that female representatives on the board are better able to understand women's needs and, similarly, male representatives are better able to understand men's needs (Drees & Heugens, 2013; Hillman et al., 2007). In addition, social capital theory does not support this finding, which suggests that BD means that members are able to use their backgrounds to provide the board with different types of social capital (Niu & Chen, 2017). For instance, given that there are considerable differences between genders in terms of social capital, females on the board are likely to have more social capital than male directors.

This result is inconsistent with the findings of most studies relating to the USA, Canada, Spain, France, Sweden, Finland, South Korea, Nigeria, Malaysia, Bangladesh, Palestine and Iraq that demonstrate a negative relationship between GD and EM (Clikean et al., 2001; Enofe et al.,

2017; Hinz et al., 1997; Labelle et al., 2010; Lakhal et al., 2015; Omoye et al., 2014; Powell & Ansic, 1997; Riley & Chow, 1992; Susanto, 2016; Triki Damak, 2018; Zalata et al., 2018). In relation to making decisions, these studies' findings show that when compared to men, women are more cautious and careful, take fewer risks and are more likely to consider alternatives and other opportunities. Moreover, women are more ethical than men, accounting for why they represent higher earnings quality when sitting on the BOD.

In different circumstances, this finding is inconsistent with the findings of previous studies (Arioglu et al., 2018; Gull et al., 2018; Srinidhi et al., 2011) that there is a positive relationship between GD and EM. These findings show that firms that have women on their BODs have more EM. This is contrary to the agency, resource dependence and social capital theories (see section 4.3.1).

In Kuwait, most women on boards work within their own family firms, so they may lack the experience, knowledge and education to affect board decisions. Furthermore, according to descriptive statistical data, women have a low percentage, which means that the weight of women on boards cannot affect them, because in Arab culture in general, they don't have the ability to let a woman on board, lesson and follow her order. Moreover, women on boards are often afraid of making risky decisions out of fear of losing their job. Indeed, Adel and Alqatan (2019) have shown that women in Kuwait suffer from discrimination such as occupation and pay inequalities, making them afraid to lose their position and work. This explains why there was no relation found between women on the board and EM.

Effects of age diversity on earnings management (EM)

Table 19 shows the OLS and random effects regression. First, the coefficient for the AD variable is significant and positive at the 5% level (B2=0.166). This is consistent with the random effect, which is significant and positive at the 5% level (B2 = 0.166) with respect to the relationship between AD and the modified Jones model. This is contrary to H2, which can be rejected. This finding means that AD on the board increases the opportunities for AD managers to manipulate EM and, in other words, reduce earnings quality.

The finding is contrary to resource dependence theory, which is based on the principle that in order to acquire resources, firms must sell their goods and services and be aware of their environment (Pfeffer, 1982). By doing so, the firm minimises its dependence on 'rare source' supplies (Hillman et al., 2009). Furthermore, it better to have a good, young director on the board rather than allow another firm to appoint him/her (Umitey, 2018). It is also essential to have board members of different ages to meet the needs of the market with regard to all age perspectives. This is consistent with Drees and Heugens' (2013) and Hillman et al.'s (2007) arguments. This finding is additionally inconsistent with the social capital theory argument that all of a person's or a group's resources, whether real or implicit, are accrued through the possession of a long-lasting network of shared contacts and respectful institutionalised relationships (Sealy & Vinnicombe, 2007). Therefore, a board that has various diverse aspects is likely to possess more social capital and should perform better than a board that has no diversity (Carter et al., 2010). However, there is insufficient relevant literature examining this relationship between AD and EM in order to make comparisons.

This study's findings are also inconsistent with those of Umitey (2018), who found a negative relationship between AD and EM. Moreover, Nyoka's (2018) and Victor and Edwin's (2019)

findings show that AD does not influence EM. However, the present study's findings are consistent with those of Musyoka et al. (2015), who found a positive association between AD and EM from his investigation of Kenyan firms.

Kuwaiti young directors are more risky than senior directors, which they used EM, to have more bonus, incentive, remuneration and record in their CV. Furthermore, young directors suffer from a lack of experience, confidence and good networking compared to senior directors.

Effects of national diversity (ND) on earnings management (EM)

Table 19 shows the OLS and random effects regression. First, the coefficient for the ND variable is negative and statically insignificant (B3 = -0.421). This is consistent with the random effect (B3 = -0.048) and indicates that ND on the board may not be a determinant of EM. Consequently, H3 is rejected. This finding means that foreign directors on the board do not affect EM. As this study has already stated, this finding is inconsistent with the arguments of resource dependency and social capital theories.

On the other hand, when this study replaced the proxy of EM by using the Kothari model as a measurement tool, it produced similar results. This finding is consistent with Dechow et al.'s (1995), Jones' (1991) and Kothari et al.'s (2005) findings that the use of a different type of measurement for EM does not change the results. As Tables 19 and 20 below show, the EM measurements of both the modified Jones and Kothari models confirm these findings. Therefore, based on these findings, H1, H2 and H3 are all rejected.

According to the descriptive statistical data, foreign directors in Kuwait have a low percentage on boards, which don't affect the board decision. A possible explanation is differences in

culture, CG code and background. Furthermore, because they live abroad, they do not attend board meetings. Moreover, they are afraid of Kafeel that can fire him/her, so they live under stress and their lives are not stable. In addition, many firms have stopped hiring non-Kuwaiti nationalities, this figure being just 36% (Alhurra, 2016; Adel & Alqatan, 2019; Longva, 2019), so they do not affect board decisions as a result. Finally, most firms have stopped hiring non-Kuwaiti foreigners and they call it Takuwait to increase Kuwaiti people's employment opportunities (Adel & Alqatan, 2019; Akzaiby, 2019; Alhurra, 2016; Longva, 2019).

In addition, this study has used other types of regression to support the OLS regression results, such as 2SLS, GMM and Tobit analysis, as shown in Tables 21, 22 and 23. These reinforce our explanations of the results of BD and EM.

Table 19: Modified Jones model

Log-modified Jones	(1) OLS	(2) Random effects
Gender	-0.262	-0.262**
Age diversity	0.166***	0.166**
National diversity	-0.0421	-0.0421
Total assets	0.000137**	0.000137***
Firm age	-0.00930***	-0.00930***
Leverage	0.000707**	0.000707***
Family firms	-0.205***	-0.205***
Board size	0.0327*	0.0327
Independent D	0.265	0.265***
Duality	-0.00233	-0.00233
Cash flows	0.00194	0.00194***
Current ratio	-0.0119***	-0.0119***
Firm losses	-0.157**	-0.157***
Constant	-4.210***	-4.210***
Observations	694	694
Prob > F	0.000	0.000
R-squared	0.173	0.172
Firm FE	YES	YES
Year FE	YES	YES

Significant at the *** p<0.01, ** p<0.05, * p<0.1

Table 20: Kothari model

Log Kothari	(1) OLS	(2) Random Effect
Gender	-0.275	-0.275*
Age diversity	0.178***	0.178**
National diversity	-0.0479	-0.0479
Total assets	0.000145**	0.000145***
Firm age	-0.00975***	-0.00975***
Leverage	0.000750**	0.000750***
Family firms	-0.216***	-0.216***
Board size	0.0337	0.0337
Independent D	0.324	0.324***
Duality	-0.00644	-0.00644
Cash flows	0.00196	0.00196**
Current ratio	-0.0130***	-0.0130***
Sales growth	-0.000214	-0.000214***
Dividends per share	0.983	0.983***
Firm losses	-0.154**	-0.154***
Constant	-4.259***	-4.259***
Observations	694	694
Prob > F	0.000	0.000
R-squared	0.176	0.176
Firm FE	YES	YES
Year FE	YES	YES

Significant at the *** p<0.01, ** p<0.05, * p<0.1

Table 21: 2SLS for EM models

2SLS	(1)	(2)
Variables	Modified Jones	Kothari
Gender diversity	-0.250	-0.275
Age diversity	0.172***	0.178***
National diversity	-0.0507	-0.0479
Total assets	0.000138**	0.000145**
Firm age	-0.00916***	-0.00975***
Leverage	0.000722**	0.000750**
Family firms	-0.210***	-0.216***
Board size	0.0325*	0.0337*
Independent	0.305	0.324
Duality	-0.00776	-0.00644
Cash flows	0.00184	0.00196
Current ratio	-0.0122***	-0.0130***
Sales growth	-0.000205	-0.000214
Dividends per share	0.932	0.983
Firm losses	-0.144**	-0.154**
Constant	-4.221***	-4.259***
Observations	694	694
R-squared	0.176	0.176
Industry FE	YES	YES
Year FE	YES	YES

Significant at the *** p<0.01, ** p<0.05, * p<0.1

Table 22: GMM for EM models

GMM	(1)	(2)
Variables	Modified Jones	Kothari
Gender diversity	-0.250	-0.275
Age diversity	0.172***	0.178***
National diversity	-0.0507	-0.0479
Total assets	0.000138***	0.000145***
Firm age	-0.00916***	-0.00975***
Leverage	0.000722**	0.000750**
Family firms	-0.210***	-0.216***
Board size	0.0325*	0.0337*
Independent	0.305	0.324
Duality	-0.00776	-0.00644
Cash Flows	0.00184	0.00196
Current ratio	-0.0122***	-0.0130***
Sales growth	-0.000205	-0.000214
Dividends per share	0.932	0.983
Firm losses	-0.144**	-0.154**
Constant	-4.221***	-4.259***
Observations	694	694
R-squared	0.176	0.176
Industry FE	YES	YES
Year FE	YES	YES

Significant at the *** p<0.01, ** p<0.05, * p<0.1

Table 23: Tobit for EM models

Tobit Variables	(1) Modified Jones	(2) Kothari
Gender	-0.227	-0.323
Age diversity	0.119*	0.174**
National diversity	-0.191	-0.161
Total assets	0.000175**	0.000167**
Firm age	-0.00142	-0.00773***
Leverage	0.000606	0.000691*
Family firms	-0.235***	-0.198***
Board size	-0.0117	0.0198
Independent	0.125	0.230
Duality	-0.0731	-0.00774
Cash flows	0.00174	0.00189
Current ratio	-0.00597	-0.00904**
Sales growth	-0.000196	-0.000159
Dividends per share	0.890	0.278
Firm losses	-0.117	-0.129
Constant	-4.078***	-4.200***
Observations	798	734
Industry FE	YES	YES
Year FE	YES	YES

Significant at the *** p<0.01, ** p<0.05, * p<0.1

6.3.2 Board diversity (BD) and firm performance (FP)

Table 24 shows the OLS regression and random effects results. In addition, Tables 25 and 26 present the GMM and 2SLS regressions regarding BD in the form of GD, AD, ND and FP. This study has used three ways to measure the dependent variables, namely ROA and ROE, as the natural log of accounting measures and TQ as the natural log of a market measure. The independent variables are as described previously.

Effects of gender diversity (GD) on firm performance (FP)

Table 24 shows GD at the 1% significance level of B1 = -0.187. Accordingly, there is a statistically significant link between the board's GD and the firm's ROA. Thus, the findings indicate that FP reduces as the board's GD increases. However, the negative sign on the value is contrary to this study's expectation. Firms may perform poorly because women on their boards are more likely to avoid risks due to their moral values (Gull et al., 2018; Omoye & Eriki, 2014). A primary goal of diversity studies has been to understand the impact of diversity on firms (Gonzalez, 2013). Nonetheless, many firms have been slow to ensure equal gender representation on their BODs (Labelle, Francoeur & Lakhal, 2015).

These findings contradict agency theory, which states that a firm's individuals take care of their interests (Susanto, 2016). Agency theory supports internal and external mechanisms to ensure that a firm has effective CG, balancing the interests of its agents and principals (Nzulwa & Wagana, 2017). Therefore, proponents of agency theory believe that having a balanced board reduces conflicts, prevents groups from dominating the deliberation process and improves a firm's performance. Hence, agency theory advocates that a board include female directors in order to improve FP (Nzulwa & Wagana, 2017). By showing a negative link between GD and

ROA, these findings are contrary to agency theory. Similarly, many research studies show that few women participate in firms' higher levels of management (Ittonen et al., 2013).

The findings are also inconsistent with those of resource dependency theory. This theory states that firms must control resources that have a critical impact on their FP (Herdhayinta, 2014). According to resource dependency theory, diversity offers vital knowledge that helps firms' top-level management when making decisions (Herdhayinta, 2014). Consequently, as shown in Table 24, by indicating that there is a negative relationship between GD and a firm's FP, our findings are contrary to resource dependency theory. Moreover, the findings are inconsistent with social capital theory, which defines social capital as all the resources – whether real or implicit – that a person or group accrues through possessing a long-lasting network of shared contacts and respectful institutionalised relationships (Sealy & Vinnicombe, 2007). For instance, given that there are significant differences between men and women in terms of social capital, a gender-diverse board is likely to have more social capital than a single-gender board. This is also the case with gender-diverse boards (Adams & Ferreira, 2009), because different nationalities' skills and experiences are likely to result in substantially diverse social capital (Luckerath-Rovers, 2013). In contrast to those shown in Table 24, the findings of similar American studies show that, by using ROA and TQ, there is a significant positive relationship between GD and FP (Carter et al., 2003; Erhardt et al., 2003; Jurkus et al., 2011; Robbiano, 2019). Having examined Italian firms, Gordini and Rancati's (2017) findings study show a significant positive relationship between BD and TQ. Another study examining firms in Africa, Asia, Europe, Latin America, North America and Oceania has found a positive relationship between GD and TQ (Pucheta-Martínez & Gallego-Álvarez, 2019). According to Jurkus et al. (2011), there is evidence that a board with a large number of men and women has a positive

impact on the country's economy. On the contrary, the findings of a Danish study for the period from 1998 to 2001 show no relationship between GD and TQ (Rose, 2007).

With regard to the literature on Kuwaiti firms, only two studies by Al-Shammari and Al-Saidi (2014) and Issa et al. (2019) have examined the same relationship. Al-Shammari and Al-Saidi's (2014) findings show that, in relation to women, there is an insignificant relationship between GD and TQ and a significant negative between GD and ROA. However, Issa et al.'s (2019) findings show that, when using TQ, there is a positive relationship between Kuwaiti firms' GD and FP. In addition, having examined the situation before the implementation of the KCGC, both studies show mixed results, as does this study. Nevertheless, other studies report that GD affects the quality of a firm's financial reporting (Peni & Vähämaa, 2010).

According to the gender percentage, which is about 5% of females does not affect a board's decisions. According to the results of GD and EM, which end with no effect with this relation in both the modified Jones and Kothari models, which means that females are afraid and do not make risky decisions. Furthermore, Adel and Alqatan (2019) have confirmed that women in Kuwait suffer from discrimination, affecting FP negatively in the short term in accounting measure ROA and ROE. However, in the long term, women influence the performance of the firm positively, which means that women focus on future performance, as shown in market measure TQ. Furthermore, women on the board provides a positive sign to investors because women are generally more ethical and less likely to take risks as men, reflecting the future of the firm: in other words, the true value of the firm TQ positively.

Effects of age diversity (AD) on firm performance (FP)

As shown in Table 24, there is a relationship at the 1% level of significance (B2 = 0.0343) between the AD of a firm's board and ROA. The value is positive and hence supports this study's expectations. H5 states that there is a positive relationship between the AD of a firm's board and its performance. When calculating AD, statisticians compare the age of the firm's director to the average age of the board's other members. AD is a dummy variable represented by 1 or 0. For instance, the value can be 1 when a company director is younger than a particular age. It will be 0 if the firm's director is older than the set age limit. According to Table 24's results, a firm performs better if, in terms of age, it has a highly diverse board.

Table 24's results are inconsistent with both resource dependency theory and social capital theory. Increased AD of the firm's board leads to more ideas and different experiences. Resource dependency theory suggests that a firm is likely to be successful if it controls the external factors that affect its operations and is able to make independent strategic decisions (Ali et al., 2014). The variables that determine a firm's independence may include skills, expertise and experience. All of these are proxies of AD. Social capital theory states that people benefit from the relationships they form with team members (Callahan, Libarkin, McCallum, & Atchison, 2015). More specifically, board members use relationships to meet the firm's employees' needs and support one another through shared respect and understanding (Bourdieu, 1986; Burt, 1992). Therefore, a board with diverse aspects is more likely to possess social capital and hence it is more likely to perform better than a board that has no diversity (Carter et al., 2010).

Moreover, from their examinations of American, Swedish and Indonesian firms, Choi and Rainey's (2010), Dagsson and Larsson's (2011) and Darmadi's (2011) findings show a positive

relationship between AD and FP. However, some studies' findings show that, compared with younger directors, older directors are more motivated in their actions to ensure that the firm is successful (Tanikawa et al., 2017). Other studies (e.g. Abdullah et al., 2017; Ali & Kulik, 2014; Ali et al., 2014; Diepen, 2015; Eulerich et al., 2014; Kunze et al., 2013; Petersson & Wallin, 2017; Shahata et al., 2017 ; Tanikawa et al., 2017) examining firms in the USA, UK, Germany, Sweden and Australia have indicated a negative relationship between AD and FP. Furthermore, Diepen's (2015) findings show no relationship between AD and FP.

Young directors are more risky than senior directors, which they used EM, to have more money, that affects FP. Shareholders will buy more shares because FP reflects positively, as shown in the result. Additionally, this leads shareholders to allow young directors to stay on the board and receive greater remuneration and experience and further their careers. However, young directors suffer from a lack of experience, confidence and good networking compared to senior directors, which is why they have a negative sign in the long term (TQ).

Effects of national diversity (ND) on firm performance (FP)

ND refers to the ratio of foreign directors on a firm's board. As shown by the results in Table 24, there is a positive relationship between a firm's ND and its FP. Statistically, the value is insignificant (B3 = 0.0181) and contrary to this study's expectations in H6, which states that there is a positive relationship between ND and a firm's FP. Table 24's results indicate that ND may not be an essential factor affecting a firm's FP, contrary to both resource dependency theory and social capital theory. On the one hand, resource dependency theory states that a firm is likely to be successful if it controls the external factors that affect its operations and is able to make independent strategic decisions (Ali et al., 2014). The increased ND of a firm's board

usually leads to it having different experiences and it can use these to create more ideas to improve its operations

Furthermore, the results are inconsistent with social capital theory, which states that people benefit from the relationships they form with team members (Callahan et al., 2015). More specifically, board members use relationships to meet a firm's employees' needs and to support one another through shared respect and understanding (Bourdieu, 1986; Burt, 1992). Therefore, a board that possesses social capital is more likely to perform better than a board that has none (Carter et al., 2010).

These results are inconsistent with several other research findings. For instance, previous studies have shown that an internationally diverse BOD is more likely to have a positive influence on a firm's FP (Alesina and La Ferrara, 2005; Delis et al., 2016; Diepen, 2015; Erhardt et al., 2003; Harjoto et al., 2015; Kaczmarek, 2009). Moreover, these results, contrary to Diepen's (2015) and Hart's (2014) findings, show that immigrant entrepreneurs have a negative effect on FP. Nevertheless, this study is consistent with examinations of Indonesian and Omani firms by Darmadi (2011) and Al-Matari et al. (2014), respectively, which indicate that when measured by ROA and TQ, international diversity has no influence on FP.

On the other hand, when this study replaced the FP proxy by using different measurements, namely ROE as the accounting measure and TQ as the market measure, it was able to confirm the ROE result, which was similar to the ROA result. However, the use of TQ as a market measure yielded the exact opposite results to those shown in Table 24. Between GD and TQ, these were significant and positive at the 10% level (B1 = 1.038). Therefore, based on this result, H4 can be rejected. Nevertheless, while the AD and ND were statistically significant,

they were negative at B2 = -0.153 and B3 = -0.397, respectively. This indicates that besides ND, a board's AD has a negative relationship with TQ at the 1% significance level. As Table 24 below shows, these results are contrary to this study's hypotheses, theories and key studies in the literature. Based on these results, H5 can be rejected, which states that there is a positive association between AD and FP. Furthermore, H6, which states that there is a positive association between ND and FP, can be rejected. Therefore, in view of these mixed findings, this study has rejected H4, H5 and H6.

A foreign director does not have an impact (and in TQ only negatively), possibly due to the fact that non-Kuwaiti directors represent a very low percentage, affecting their decisions on boards. Furthermore, they may miss board meetings because they live outside the country and it hard to come quickly if there is an emergency meeting that affects FP. Finally, most firms have stopped hiring non-Kuwaiti employees under a policy called Takuwait as a means of increasing Kuwaiti employees' opportunities (Adel & Alqatan, 2019; Akzaiby, 2019; Alhurra, 2016; Longva, 2019).

In order to confirm the random effects results and make the explanation of the result robust between BD and FP, this study has used 2SLS and GMM as additional analyses, as shown in Tables 25 and 26 below, which confirm and support the results of both the OLS and random effects regressions.

Table 24: OLS & random effects for FP models

OLS & random effects	(1)	(2)	(3)	(4)	(5)	(6)
Variables	ROA-OLS	**ROA-RE**	ROE-OLS	**ROE-RE**	TQ-OLS	**TQ-RE**
Gender diversity	-0.187***	-0.187***	-0.0573***	-0.0573***	1.034***	1.034*
Age diversity	0.0343***	0.0343***	0.0100***	0.0100***	-0.153***	-0.153***
National diversity	0.0186	0.0186	0.00760	0.00760	-0.394***	-0.394***
Total assets	-4.79e-1***	-4.79e-05	-1.65e-1***	-1.65e-05*	0.00022***	0.00022***
Firm age	-0.000587	-0.00059**	-0.000110	-0.00011***	0.000147	0.000147
Leverage	0.000104**	0.00010***	2.32e-05	2.32e-05***	-3.87e-05	-3.87e-05
Family firms	-0.00848	-0.00848**	-0.000792	-0.000792	-0.0615	-0.0615
Board size	-0.00152	-0.00152	-0.00113	-0.00113	-0.0715***	-0.0715***
Independent D	-0.103	-0.103	-0.0276	-0.0276	-0.372	-0.372
Duality	-0.0206**	-0.0206	-0.00322	-0.00322	0.0990***	0.0990
Cash flows	3.17e-05	3.17e-05	-9.47e-07	-9.47e-07	-0.000867	-0.000867*
Current ratio	-0.00139**	-0.0014***	-0.000312*	-0.00031***	0.000789	0.00079***
Sales growth	-2.25e-06	-2.25e-06	-6.51e-07	-6.51e-07	-7.85e-05	-7.85e-05*
Dividends per share	-0.183	-0.183	0.0208	0.0208	-1.278	-1.278***
Constant	4.216***	4.216***	6.014***	6.014***	0.198	0.198***
Observations	694	694	694	694	693	693
Prob>F	0.000	0.000	0.000	0.000	0.000	0.000
R-squared	0.150		0.118		0.278	
Firm FE	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES

Significant at the *** p<0.01, ** p<0.05, * p<0.1

Table 25: 2SLS for FP models

2SLS	(1)	(2)	(3)
Variables	ROA	ROE	Tobin's Q
Gender diversity	-0.187***	-0.0573***	1.034***
Age diversity	0.0343***	0.0100***	-0.153***
National diversity	0.0186	0.00760	-0.394***
Total assets	-4.79e-05***	-1.65e-05***	0.000219***
Firm age	-0.000587	-0.000110	0.000147
Leverage	0.000104**	2.32e-05	-3.87e-05
Family firms	-0.00848	-0.000792	-0.0615
Board size	-0.00152	-0.00113	-0.0715***
Independent	-0.103	-0.0276	-0.372
Duality	-0.0206**	-0.00322	0.0990***
Cash flows	3.17e-05	-9.47e-07	-0.000867
Current ratio	-0.00139**	-0.000312*	0.000789
Sales growth	-2.25e-06	-6.51e-07	-7.85e-05
Dividends per share	-0.183	0.0208	-1.278
Constant	4.216***	6.014***	0.198
Observations	694	694	693
R-squared	0.150	0.118	0.278
Industry FE	YES	YES	YES
Year FE	YES	YES	YES

Significant at the *** p<0.01, ** p<0.05, * p<0.1

Table 26: GMM for FP models

GMM	(1)	(2)	(3)
Variables	ROA	ROE	Tobin's Q
Gender diversity	-0.187***	-0.0573***	1.034***
Age diversity	0.0343***	0.0100***	-0.153***
National diversity	0.0186	0.00760	-0.394***
Total assets	-4.79e-05***	-1.65e-05***	0.000219***
Firm age	-0.000587	-0.000110	0.000147
Leverage	0.000104**	2.32e-05*	-3.87e-05
Family firms	-0.00848	-0.000792	-0.0615
Board size	-0.00152	-0.00113	-0.0715***
Independent	-0.103*	-0.0276*	-0.372
Duality	-0.0206**	-0.00322	0.0990**
Cash flows	3.17e-05	-9.47e-07	-0.000867
Current ratio	-0.00139***	-0.000312***	0.000789
Sales growth	-2.25e-06	-6.51e-07	-7.85e-05
Dividends per share	-0.183	0.0208	-1.278
Constant	4.216***	6.014***	0.198
Observations	694	694	693
R-squared	0.150	0.118	0.278
Industry FE	YES	YES	YES
Year FE	YES	YES	YES

Significant at the *** p<0.01, ** p<0.05, * p<0.1

Table 27: The study's overall expectations and findings

Research hypotheses	Expected	Results
H1: There is a negative association between gender diversity and earnings management	-	X
H2: There is a negative association between age diversity and earnings management	-	+
H3: There is a negative association between national diversity and earnings management	-	X
H4: There is a positive association between gender diversity and firm performance	+	Mixed
H5: There is a positive association between age diversity and firm performance	+	Mixed
H6: There is a positive association between national diversity and firm performance	+	Mixed

6.4 Additional analyses

6.4.1 Other measurements of age diversity

For its purpose of analysis, this study has used Tobit analysis for EM, as the fact that EM has positive values and the GMM analysis to solve endogeneity and causality problems for FP (further details in section 5.7) and has used standard deviation and range to measure AD rather than the average. The additional analysis measured by standard deviation follows the examples of Ahn and Walker (2007), Bohren and Strom (2010), Harrison and Klein (2007) and Kunze et al. (2013). The standard deviation has been used for all directors per year in each firm. Moreover, the range has formed the third measure of AD, which is the maximum age director minus the youngest director on the board each year. After changing the measurement of age diversity, the result remained the same as the additional analysis results, as shown in Tables 28 and 29.

Table 28: Measuring AD by STD

EM: Tobit; FP: 2SLS	(1)	(2)	(3)	(4)	(5)
Variables	Modified Jones	Kothari	ROA	ROE	TQ
Gender diversity	-0.206	-0.284	-0.143***	-0.0437***	1.090***
STD	0.0157**	0.0181**	0.000560*	0.000116*	-0.0104**
National diversity	-0.102	-0.0746	0.0347	0.0104	-0.432***
Total assets	0.000220***	0.000223***	-4.44e-05***	-1.54e-05***	0.000200***
Firm age	-0.00142	-0.00838***	-0.000535	-7.97e-05	0.00156
Leverage	0.000348	0.000473	7.86e-05	1.49e-05	0.000190
Family firms	-0.201***	-0.151**	-0.0157*	-0.00245	-0.0370
Board size	0.00260	0.0363	-0.00344	-0.00182**	-0.0480***
Independent	0.301	0.523	-0.0692	-0.0200	-0.308
Duality	-0.0209	0.0361	-0.0210**	-0.00390	0.0892**
Cash flows	0.00155	0.00160	5.64e-05	7.15e-06	-0.000821
Current ratio	-0.00767*	-0.0104***	-0.00136**	-0.000305*	0.00169
Sales growth	-0.000187	-0.000131	-2.45e-06	-3.98e-07	-0.000126
Dividends per share	0.768	0.167	-0.123	0.0330	-1.079
Firm losses	-0.0909	-0.0611			
Constant	-4.445***	-4.566***	4.240***	6.021***	-0.163
Observations	779	718	779	779	778
R-squared			0.132	0.108	0.244
Industry FE	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES

Significant at the *** p<0.01, ** p<0.05, * p<0.1

Table 29: Measurement of age diversity by Range

EM: Tobit; FP: 2SLS Variables	(1) Modified Jones	(2) Kothari	(3) ROA	(4) ROE	(5) TQ
Gender diversity	-0.205	-0.282	-0.143***	-0.0438***	1.092***
Range	0.00542*	0.00648**	3.37e-1*	3.54e-1*	-0.00302*
National diversity	-0.103	-0.0782	0.0339	0.0101	-0.429***
Total assets	0.000219***	0.000221***	-4.40e-05***	-1.52e-05***	0.000198***
Firm age	-0.00129	-0.00819***	-0.000529	-7.66e-05	0.00160
Leverage	0.000348	0.000469	7.72e-05	1.44e-05	0.000195
Family firms	-0.201***	-0.153**	-0.0161*	-0.00259	-0.0363
Board size	0.00123	0.0350	-0.00343	-0.00182**	-0.0487***
Independent	0.298	0.516	-0.0682	-0.0196	-0.314
Duality	-0.0211	0.0352	-0.0210**	-0.00392	0.0893**
Cash flows	0.00153	0.00158	5.44e-05	6.32e-06	-0.000821
Current ratio	-0.00768*	-0.0104***	-0.00135**	-0.000304*	0.00168
Sales growth	-0.000189	-0.000135	-2.97e-06	-6.13e-07	-0.000125
Dividends per share	0.882	0.280	-0.138	0.0278	-0.993
Firm losses	-0.0850	-0.0543			
Constant	-4.418***	-4.543***	4.235***	6.019***	-0.131
Observations	779	718	779	779	778
R-squared			0.132	0.108	0.242
Industry FE	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES

Significant at the *** p<0.01, ** p<0.05, * p<0.1

6.4.2 Interaction between board independence and family firms with independent variables

The additional analyses have checked the impacts of the interactions between each board independent and family firm with independent variables (Table 30). Table 31 shows a positive relationship at 1% significance between females in family firms and TQ. In other words, the more family director in the family firm the better performance in the long term and this gives strong evidence and confirms all the previous analyses between GD and TQ. Amran (2011) has studied the relationship between GD in family firms and TQ in Malaysia using 182 listed firms between 2003 and 2007, finding a positive relationship at 5% significance, confirming the present study's result.

Furthermore, this analysis has found a positive relationship at the 10% level of significance between foreign directors in family firms and the Kothari model, although this was not significant with the modified Jones model. In other words, family firms that are run by foreign directors are more able to manipulate EM. However, this was not the case with the previous analysis, which found no relationship between foreign directors on the board and EM. Moreover, this test has yielded the same results between independent variables and EM, besides FP, except the relationship between ND and both EM models that have the same sign which is negative but turn in to significant at %10. In addition, the relationship between GD and TQ have the same sign statistically, but this is insignificant.

Table 30: Interaction between board independence and family firms with independent variables

Additional control variables	**Definition**
GD * ID	Female independent directors
AD * ID	Young independent directors
ND * ID	Foreign independent directors
GD * FF	Female directors in Family firm
AD * FF	Young directors in Family firm
ND * FF	Foreign directors in Family firm

Table 31: Robust analysis using interaction

EM: Tobit; **FP:** GMM Variables	(1) Modified Jones	(2) Kothari	(3) ROA	(4) ROE	(5) TQ
Gender diversity	-0.725	-0.803	-0.106*	-0.0302*	0.274
Age diversity	0.171*	0.263***	0.0355***	0.00992**	-0.151***
National diversity	-0.406*	-0.444*	0.0372	0.0138	-0.295**
GD * ID	0.0880	-0.639	-0.666	-0.166	0.307
AD * ID	0.368	-0.0550	0.160	0.0295	-0.504
ND * ID	-	-	-	-	-
GD * FF	1.091	0.997	-0.0752	-0.0305	1.808***
AD * FF	-0.132	-0.191	-0.0188	-0.00474	0.0576
ND * FF	0.520	0.596*	-0.00580	-0.0154	-0.331
Total assets	0.000184**	0.000177**	-4.67e-05***	-1.62e-05***	0.000195***
Firm age	-0.000515	-0.00673**	-0.000434	-4.86e-05	0.00134
Leverage	0.000615	0.000670*	9.55e-05**	1.90e-05	0.000226
Family firms	-0.280**	-0.218*	-0.000210	0.00475	-0.108
Board size	-0.0130	0.0165	-0.00279	-0.00173*	-0.0471***
Independent	-0.0607	0.230	-0.130	-0.0295	-0.0950
Duality	-0.0673	0.00711	-0.0199**	-0.00380	0.0812**
Cash flows	0.00189	0.00206	8.78e-05	3.76e-06	-0.00106**
Current ratio	-0.00615	-0.00952**	-0.00144***	-0.000326***	0.00184
Sales growth	-0.000202	-0.000175	-5.09e-06	-1.24e-06	-0.000101
Dividends per share	1.010	0.405	-0.187	0.0532	-0.625
Firm losses	-0.108	-0.121			
Constant	-4.071***	-4.198***	4.209***	6.009***	0.0175
Observations	798	734	779	779	778
R-squared			0.152	0.125	0.277
Industry FE	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES

Significant at the *** p<0.01, ** p<0.05, * p<0.1

6.5 Summary

This chapter has examined the association between GD and EM in detail, revealing that one does not exist. By contrast, the chapter has demonstrated that there is a positive relationship between AD and EM, although this was not supported by the additional analyses. Turning to FP, this study has used different measurements to consider the relationships between gender, age, ND and FP. The findings have revealed no conclusive evidence of a positive or negative correlation between gender, age, ND and FP because different measurements produced different results. Furthermore, after changing the AD measurements such as standard deviation and range, the result remained the same. Finally, as an additional analysis, this thesis has checked the impact of the interaction between each independent and family firm with independent variables, revealing a positive relationship at 1% significance between females in family firms and TQ. In order words, family firms with female directors (women business owners) show better performance in the long term and this give strong evidence and confirms all the previous analyses of GD and TQ. Furthermore, this analysis has found a positive relationship at 10% significance between family firms with foreign directors and the Kothari model, but this was not significant with the modified Jones model. Stated differently, family firms run by foreigner directors are more able to manipulate EM. However, this was not supported by the previous analysis, which found no relationship between foreign directors on boards and EM. The next chapter is the conclusion.

7.0 Chapter Seven: Conclusions

This study has aimed to examine the impacts of BD in the form of GD, AD and ND on EM and FP. This chapter starts by summarising the study's key findings. Next, it presents the study's implications. Moreover, it highlights its contributions to the literature. It then explains the study's limitations. Last but not least, the chapter presents recommendations for future studies.

7.1 Summary of this study's key findings

This study was designed to ascertain if GD, AD and ND affect both the EM and FP of Kuwaiti non-financial firms listed on Boursa Kuwait. For the purpose of this study, these firms were analysed between 2010 and 2017.

The findings show that with respect to such firms, one relationship could be found between BD and EM. The study's first result indicates that when using the modified Jones model, there is a negative sign statistically, but an insignificant relationship between GD and EM. Therefore, this study's first hypothesis is rejected. The study's second result indicates that when using the modified Jones model, there is a positive relationship between AD and EM. The third result indicates that when using the modified Jones model, ND has no impact on EM. The use of the Kothari model produced similar results. This study therefore rejects H1, H2 and H3.

Furthermore in terms of FP in the form of ROA, ROE and TQ, the findings show that GD has a negative relationship with ROA, while AD has a significant positive correlation with ROA. Moreover, the findings show that there is no association between ND and ROA.

When this study replaced the FP proxy by using different measurements, namely ROE as the accounting measure and TQ as the market measure, it confirmed that the ROE result was similar to the ROA result. However, the use of TQ as a market measure yielded the exact opposite results to those shown Table 24. Between GD and TQ there was a significant and positive relationship, with different results garnered by different measures.

However, atlhough the AD and ND were statistically significant, they operated in a negative relationship. This indicated that, besides ND, the board's AD has a negative relationship with TQ. These results were contrary to this study's hypotheses as well as existing theories and studies. Given that different measures produced different results, this study therefore rejects H4, H5 and H6.

7.2 Implications

The practical empirical findings indicate that GD on the board do not affect EM. Furthermore, it is more important to have senior directors on the board rather than AD to reduce EM. However, in terms of accounting measures (ROA and ROE), while GD on the board reduces FP, it increases FP in terms of the market measure (TQ). Moreover, in terms of accounting measures (ROA and ROE), while AD, through having younger directors on the board, increases FP, in terms of the market measure (TQ), it reduces FP. There is no need to employ any foreigners on the board because no relationship was found with ROA or ROE, while ND did not affect EM. However, having foreign directors on the board has been found to reduce FP measured by TQ. Moreover, the findings show that there is a significant negative relationship between family firms and EM. This indicates that family firms have a lower level of EM and that the same variable reduces FP. Furthermore, having more independent directors on Kuwaiti listed companies' boards does not affect their level of EM and FP. Having more liquidity, which is a proxy of risk, also reduces the level of both a firm's EM and FP in the short term. Larger company size increases EM and, in terms of FP, there are mixed results. The size of the board is significantly positive at the 10% level and therefore the more directors on the board, the greater the EM in firms. Size does not however affect a firm's accounting measure performance (ROA and ROE). However, it is significant and negative at the 1% level only when measured by TQ. Consequently, when using TQ as a measurement of the market, there is a reduction in FP. This means that having many directors on the board delays the decision-making process and it is generally not good for a firm. Besides, the duality of the chairman's and the CEO's roles does not affect EM. There is also a significant negative relationship between firm losses and EM. This means that the greater the firm's losses, the lower the level of EM.

7.3 Study contributions

By investigating board diversity's effects on EM and FP, this study has extended the existing literature about their respective relationships. In addition, by demonstrating the vital roles played by women, young people and foreign directors in improving BODs' monitoring role on EM and FP, this study has contributed more widely to the existing literature on GD, AD and ND. More specifically, this study's findings can be summarised as: first, adding to existing knowledge; second, providing a theoretical framework for the purpose of studying the relationships between BD and EM and FP; and third, providing a methodology for doing so.

As shown by the results in Figure 6 and Table 1, which support this study's hypotheses, this study's findings have also made significant contributions to the use of social capital theory in relation to the BD of Kuwaiti non-financial firms listed on Boursa Kuwait.

Finally, when deciding on the appropriate methodology for the research, this study used new variables that affected both these firms' EM and FP. These variables were firm age, family firm, liquidity, dividends per share, sales growth and cash flow (for further details, please see section 3.2.3). In the context of GCC countries and, more specifically as a control variable in relation to Kuwaiti non-financial firms listed on Boursa Kuwait, this study used a new measure: the founding family members of a family firm (Ebrahim & Abdel Fattah, 2015). Furthermore, this study used the largest sample and the longest period since the KCGC was implemented in 2013, increasing the validity of its findings.

7.4 Limitations

The main limitations of this study's methods can be summarised as follows. First of all, diversity data were unavailable and the researcher found it difficult to obtain this information from the database. Consequently, data were collected manually, which took a long time. The second limitation was the quantitative methods indicating whether or not there was a relationship between the variables. However, these methods did not provide an explanation about any such relationship. The third limitation was the wide range of unavailable data in Kuwait, making it difficult to collect data before 2010. Furthermore, the data of both audit and audit committee characteristics were not available. In terms of AD and EM, there were also few available resources, making it difficult to make comparisons with the available data. Moreover, there are very few previous EM and diversity studies in Kuwait and GCC countries. This study has measured GD by percentage, but it would have been more interesting to measure this in terms of education degrees and experiences. Moreover studies like Gull et al. (2018) have highlighted the importance of using education and experience as a proxy of GD. Finally, as this study is limited to Kuwait, its findings cannot be generalised to other regions.

7.5 Recommendations for future research

With regard to this study's results, it is recommended that they form the basis for many future studies. This study used a sample of 103 Kuwaiti listed firms over eight years and which included 824 observations. Based on the existing literature, future studies of emerging counties like GCC countries are recommended, using larger samples to provide greater clarification and stronger evidence of similarities and differences.

Additionally, previous research studies (e.g. Abdullah & Ismail, 2017) have found that GCC countries have different CGCs and practices, concentrating on non-financial firms. Consequently, it is recommended that future studies investigate the impact of BD on EM and on FP in financial industries, as these have different CGCs.

It is also recommended that a comparative study be conducted between Kuwait and a developed country in order to identify the similarities and differences arising from their backgrounds and disciplines (Fischer et al., 2010).

Moreover, it would be useful to conduct a study using both qualitative and quantitative methods. In addition, it is recommended that, based on this study's findings, an analysis be conducted between firm age, leverage, family firm and liquidity with EM and FP to test these relationships and to establish whether or not there is a significant relationship between them (more information can be found in section 3.2.3).

Previous studies have provided essential evidence regarding the use of other measures of GD, such as education and experience (Gull et al., 2018; Issa et al., 2019). According to Gull et al.'s (2018) findings, firms appoint women according to their education, experience and behaviour

and thereby gain a new perspective on the effectiveness of GD. Consequently, it is recommended that further studies be conducted to measure GD by means of education and experience. Additionally, one might study CEO diversity in the form of GD, AD and ND.

Previous investigations have also shown the importance of studying classification shifting to manipulate EM (Zalata et al., 2018). Therefore, it is recommended that a future study use other proxies of EM, such as real earnings management and classification shifting, to establish whether or not these proxies confirm existing results.

8.0 Chapter Eight: References

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Research Ethics Review Checklist

Please include this completed form as an appendix to your thesis (see the Research Degrees Operational Handbook for more information

UNIVERSITY OF PORTSMOUTH

Postgraduate Research Student (PGRS) Information				Student ID:	830509
PGRS Name:	Ahmad Alqatan				
Department:	Accounting and Financial Management	First Supervisor:	Dr. Imad Chbib		
Start Date: (or progression date for Prof Doc students)	1/02/2018				
Study Mode and Route:	Part-time ☐ Full-time ☒	MPhil ☐ PhD ☒	MD ☐ Professional Doctorate ☐		

Title of Thesis:	Would board diversity effect on earnings management, firm performance and corporate governance code in Kuwait?
Thesis Word Count: (excluding ancillary data)	58710

If you are unsure about any of the following, please contact the local representative on your Faculty Ethics Committee for advice. Please note that it is your responsibility to follow the University's Ethics Policy and any relevant University, academic or professional guidelines in the conduct of your study

Although the Ethics Committee may have given your study a favourable opinion, the final responsibility for the ethical conduct of this work lies with the researcher(s).

UKRIO Finished Research Checklist:
(If you would like to know more about the checklist, please see your Faculty or Departmental Ethics Committee rep or see the online version of the full checklist at: http://www.ukrio.org/what-we-do/code-of-practice-for-research/)

a) Have all of your research and findings been reported accurately, honestly and within a reasonable time frame?	YES ☒ NO ☐
b) Have all contributions to knowledge been acknowledged?	YES ☒ NO ☐
c) Have you complied with all agreements relating to intellectual property, publication and authorship?	YES ☒ NO ☐
d) Has your research data been retained in a secure and accessible form and will it remain so for the required duration?	YES ☒ NO ☐
e) Does your research comply with all legal, ethical, and contractual requirements?	YES ☒ NO ☐

Candidate Statement:	
I have considered the ethical dimensions of the above named research project, and have successfully obtained the necessary ethical approval(s)	
Ethical review number(s) from Faculty Ethics Committee (or from NRES/SCREC):	
If you have *not* submitted your work for ethical review, and/or you have answered 'No' to one or more of questions a) to e), please explain below why this is so:	
No, because I used quantitative method	
Signed *(PGRS)*: Ahmad Alqatan	**Date:** 07/10/2019

UPR16 – April 2018