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CURIOUS FOR SPURIOUS LINKS IN CORPORATE GOVERNANCE: DEVELOPMENT OF INTEGRATED MECHANISM FOR FIRM PERFORMANCE

Ghulam Abid[1], **Samiah Ahmed**[2§] and **Alia Ahmed**[3]
National College of Business Administration & Economics, Lahore, Pakistan
Email: [1]dr.ghulamabid@gmail.com
[2]samiahahmed21@gmail.com
[3]dralia@ncbae.edu.pk
[§] Corresponding Author

ABSTRACT

Firm performance depends on various key determinants, such as the board characteristics, board structure, resources, effective policy and decision making and particularly resource management. These determinants within the environment have serious implication for effective functioning and firm value creation. The survival or collapse of firms is contingent on the effective or ineffective interplay among these factors. Corporate governance gained increasing importance after each wave of corporate crises. However, the empirical research on corporate domain provides contrary results and completely fails to explain the interactive mechanism of the above mentioned key determinants. This study examines and provides an overview of the spurious relationships and black boxes in corporate governance domain particularly between the board characteristics, its structure, and on firm performance. The study provides the integrated mechanism of firm performance, linking association and mechanism between various constructs to shape further research in corporate governance domain.

KEYWORDS

Corporate governance; spurious relationship; integrated framework; firm performance.

1. INTRODUCTION

Research on corporate governance has gained momentum after meltdowns of Polly Peck in 1990 to GlaxoSmithKline in 2014, particularly after high profile collapses like that of Enron, Andersen, WorldCom and many more around the world specifically in UK and USA during the same period. Literature on corporate governance puts major responsibility on poor governance for outbreak of the Asian crisis in 1997 and for majority of corporate collapses around the world. Consequently, corporations are facing enormous pressures to restructure their operations particularly with respect to corporate governance (Edwards, 2004; Weismann, 2009). In most of the corporate scandals, corporations have been found to lie and corporate executives have been found to act greedily or, fraudulently (Abid & Ahmed, 2014; Starbuck, 2014), and these malpractices have been observed in public as well as private sectors.

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Stakeholders around the world are mainly interested in accountability particularly that of directors. The word ‘accountability’ in English comes from the fourteenth century and King James II of England was the first to use the term in 1688, when he assured the public of his accountability in the following words:

“I am accountable for all the things that I openly and voluntarily do or say”

In law, accountability is liability; in politics it is answerability and responsiveness; in finance and the area of corporate governance: it is preserving fidelity and trustworthiness in matters of fiduciary relationships, etc. (Bovens et al., 2014). It is to be noted here that the concept of accountability only gradually became a vital component of the corporate governance domain, and became one of the most important pillars of good governance (Keay & Loughrey, 2014). Hence, most of the scholars found it of critical importance and it subsequently was incorporated as a main component in most of the corporate governance definitions. According to Mensah et al. (2003), “corporate governance is the set of arrangements through which organizations account to shareholders and the general public”. Similarly, the Cadbury Report (1992) stressed on openness, integrity and accountability as the principles, upon which it’s Code of Best Practice are based.

As far as the accountability of other parties in the organization is concerned, the view held by most is that the company is accountable to society in general, including all the stakeholders and accountability of managers is towards the boards. However, as far as directors are concerned, they are accountable to the company’s stockholders and this accountability of the board is normally linked to value creation (Keay & Loughrey, 2014). According to Ferrell and Ferrell (2011), most of the times, CEOs are held responsible for the ethical, legal and all aspects of the financial performance of the firm (Aggarwal & Samwick, 2003).

Researchers and practitioners around the world recognize the importance of effective corporate governance system and its compliance for the interest of stakeholders. However, regardless of the recognized fact that corporate governance plays a vital role for society, there are still different viewpoints regarding the definition and conceptualization of corporate governance. Uniform corporate governance policies are still at middle-of-the-road and do not represent the concern of majority of the firms (Starbuck, 2014) as various big firms need distinctive policies.

Practicality of the notion of corporate governance is surrounded by some myths too. According to one of the widespread myths, a firm operates and managers are meant to serve interest of shareholders and that the other stakeholders do not have a voice in corporate governance. But in reality the owner’s voice in corporate governance comes indirectly through stakeholders like financial markets. Furthermore stronger stakeholders such as the powerful organizations have stronger voices in corporate governance (Starbuck, 2014).

Traditionally, corporate governance specified the rules regarding the internal mechanisms of companies. These rules normally shaped and guided the relationships among the owners, board members and management in solving the agency problem. However, major collapses like Enron, Andersen and WorldCom, highlighted concerns and needs in corporate governance that surpass this traditional emphasis (Gill, 2008;

Windsor, 2009), as the main theme shifted from economic (agency problem) to public interest. Hence, now with public as its main focus, corporate governance aims not only at protecting the interest of owners but also guarding the non-investors' interest (Gill, 2008).

Post-Enron era drastically changed its focus to ethics and accountability as against the pre Enron era which was mainly concerned with the agency problem. The present era of corporate governance acknowledges that corporate governance is not merely about increasing stockholders' wealth, but rather about long term relationships among various stakeholders including employees, suppliers, customers, financial institutions, lenders, regulators, and the community in general.

For decades, history has witnessed the evolution of corporate governance system, and how it has forcibly been imposed and complied with, under pressures from countries' regulatory environment and international stakeholders. The scholarly discussions in this area have also had an effect on governmental policies and actions regarding corporations (Starbuck, 2003, 2014). However, the empirical research in corporate domain provides quite a few, contrary results as far as relationships/association among key factors such as board characteristics, board structure and firm performance are concerned. Also, no study has yet looked into the actual integrated mechanisms of how or why factors like: board characteristics and board structure have an impact on firm performance; effective policies and decisions; resources and management of resources, environment, as well as organizational vision and mission. Rather, most of the studies have only highlighted the impact, without appropriate explanation or evidence on as to why these relationships exist; or why the influences may have occurred; thereby rendering these relationships spurious, in terms of lack of authenticity and validity; and thus creating a wide gap in the theoretical understanding of the aforementioned relationships. 'Spurious relationship' referred to here, is taken as an 'un-explained relationship', where two variables have been inferred as having a direct causal connection; without any probable explanation or without being backed by evidence. There is no elucidation on: whether the relationships exist as a matter of coincidence or due to the presence of some other extraneous; third; unseen factor. This identified gap leads us to the objectives of our study, stated as under:

1) *to examine and provide an overview of the black box of spurious relationships in corporate governance domain; particularly, between the board characteristics, its structure, and on firm performance; and*
2) *to develop an integrated mechanism that sheds light on how the various board characteristics affect firm performance.*

2. LITERATURE REVIEW

According to Windsor (2009), definition and conceptualization of corporate governance, remain matters of confusion and controversy. Authors have described corporate governance as: "doing the right things" and "doing things right" (Van den Berghe & Levrau, 2004); however, due to the intricate nature of corporate governance, researchers face a conundrum in defining the said phenomenon (Kooskora, 2006) and many have developed different definitions reflecting different viewpoints on the basis of differing concerns. Thus the definitions formed remain opaque and often inconclusive. It

is also argued that there is no specific definition of corporate governance that could be adopted for all situations and jurisdictions. Literature on corporate governance has viewed corporate governance diversely (see Table 1). The main competing perspectives on corporate governance under consideration in this study are twofold: firstly, the pre-Enron perspective, which emphasizes on enhancing the shareholder's wealth; and conceptualizes governance on the basis of agency theory. In contrast to the pre-Enron perspective, the growing body of literature on corporate governance emphasizes the conceptualization of governance in broader, complex dimensions of accountability, transparency, disclosure and ethics in the post-Enron years (Gill, 2008; Windsor, 2009). This post-Enron perspective states: that a firm's practices and policies reflect the notion of all the stakeholders because businesses affect and are affected by all the parties in society.

Table 1
Corporate Governance: Definitions and Important Features

Source	Definition	Important features
Mallin (2013)	"Corporate governance is a mechanism to attain the objectives of firms and is concerned with both the shareholders and the internal aspects of the company, such as internal control, and the external aspects, such as organization's relationship with it, shareholders and other stakeholders".	Profitability concerning internal and external aspects
Mallin (2002)	"The exercise of power over and responsibility for corporate entities"	Power and responsibility's Guidance
OECD	"A set of relationships between a company's board, its shareholders and other stakeholders. It also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined".	Relationship among stakeholders, provide structure for planning, organizing and monitoring
Cadbury Report (1992)	"Corporate governance is the system by which companies are directed and controlled"	Direction and control
Siebens (2002)	"Corporate governance as the transformation of the viewpoint of how the board of directors can ideally serve the interests and requirements of all stakeholders".	Role of board of directors
Mensah et al. (2003)	"Corporate governance is the set of arrangements through which organizations account to shareholders and the general public".	Accountability towards stakeholders
Shleifer & Vishny (1997)	"Corporate governance as the ways in which suppliers of finance to companies assure themselves of getting a return on their investment".	Ways to assure investors

Source	Definition	Important features
La Porta et al. (2000)	"A set of mechanisms through which outside investors protect themselves against expropriation by [managers and controlling shareholders]''.	Ways to assure investors
Jung (2013)	"Corporate governance as a mechanism for overseeing and monitoring corporate management and disciplining the top management".	Overseeing, organizing and control

Also, the notion of governance differs from country to country due to diverse cultural, political and social aspects that reflect their underlying preferences. Hence, there is a need to rethink corporate governance in the light of unification with multiple aspects. Furthermore, it should take fresh angles, collective views and work towards developing common understanding of the phenomenon.

2.1 Development of Corporate Governance

Keeping in view the history of collapses, where corporate executives have been found to act greedily or fraudulently and corporations have been involved in cheating and stealing (Abid & Ahmed, 2014; Starbuck, 2014),so corporations are now under huge pressures to restructure their operations, particularly, with respect to corporate governance (Edwards, 2004; Weismann, 2009). Corporate governance mechanism around the world differs and it depends on contextual (see Table 2), and cultural influences. Also, as recognized by Cernat (2004), the complexity of corporate governance mechanism is either capital-related or labor related. Capital related dimension broadly includes ownership structure, voting rights, owner's identity and role of institutional investors whereas; labor-related mainly considers stakeholder's position in corporate governance.

Table 2
Development of Corporate Governance

Context	Explanations
Patterns of ownership	Ownership among individuals, institutional investors, banks and governments, holding company and foreign. The ownership varies from the highly dispersed to singularly concentrated.
Markets for corporate control	High proportion of external investors leads to hostile takeover, merger and acquisition.
Financing corporate entities	Countries where stock markets are small, listed companies rely on non-equity loan capital. The company that rely on loan then ultimately power lies in the hands of the lender.

From decades, history has witnessed that the corporate governance system evolves time to time and now been forced because of the requirement of legal compliance within country and by internationally stakeholders. There are five main and widely known governance system models i.e., American rules-based, United Kingdom/Commonwealth principles-based model, Continental European two-tier model, Japanese stakeholder-

oriented network model, and the Asian family-based model which are also being discussed increasingly (Klapper & Love, 2004). Corporate governance models are under scrutiny in recent debates where comparative corporate governance approach is focused on widely accepted models (Gray, 2010; Hopt et al., 1998) in term of competitive advantage (Cernat, 2004). Theory and practice on corporate governance have predicted company's moves towards either the adoption of old US (Edwards, 2004) or UK/Commonwealth models or development of new universally accepted hybrid model (Cernat, 2004).

Only recently, the European Commission aimed to create 'level playing-field' for all corporations throughout the European countries by harmonized regulatory model (Cernat, 2004). However, the main focus remained on the balance between convergent (Edwards, 2004) dependence and divergent debates (Gray, 2010). For example, Canadian model of corporate governance is recognized as an expansion of American rules-based model. Furthermore, Goergen et al., (2008) have also found a bit of convergence of German model that is commonly represents the Anglo-American model.

There is significant difference between US, UK and Continental European two-tier models of corporate governance. Due to high interdependence on global nations and corporations, better comprehensions of different acceptable models of corporate governance are worthy of tasking (Gray, 2010). UK's model of corporate governance is principle-based and focused more on ***ex ante*** protection of "outside" shareholders whereas that of US is rule based and mainly focuses on ***ex post*** protection of share traders (Mullineux, 2010). Another difference lies in the level of influence exerted by institutional investors in corporate governance which is greater in UK as compared to in the US.

2.2 Corporate Governance Theoretical Perspectives: The Shortcomings

With the increase in industrialization and global economies, corporate governance has become a matter of growing concern for the protection of shareholders worldwide. Implementation of proper governance mechanisms can reduce the agency problem that exists between the management and the shareholders/owners. Furthermore, the stakeholders can easily evaluate the behavior of management. The Anglo-American model is also known for improving corporate governance in crisis.

Corporate governance has become a major concern for managing firms in complex environment. Stakeholders are losing confidence due to high profile and unexpected collapses around the globe. Literature on corporate governance considers poor corporate governance responsible for the Asian crisis in 1997 and majority of corporate failures around the world. In fact, the complex corporate structures continue to be a persistent factor for corporate failures making corporate governance an emerging phenomenon. CG's development is based on different complex disciplines including legal, cultural, ownership, and other structural differences (Mallin, 2013). However, its underpinnings are assuredly weak (Tricker, 2012) where it has evolved with the development, growth and advancement of the economies as well as with the development in the corporate structures and their accompanying complexities. However, the literature points towards not only a lack of theoretical underpinning but that of empirical and methodological lucidity as well, which effectively mirrors the reality of CG. The shared consensus among

the CG scholars and practitioners is that there is no single universally recognized theoretical base neither commonly acknowledged paradigm; hence, a need to develop a general theory of corporate governance, while keeping in view the qualities of a good theory including parsimony and generalizability (Abid et al., 2014). The tenets of a more general and specific corporate governance theory ought to reflect the individual, state and enterprise, their relationship, expectations, requirements, demands, duties and responsibilities of each participant. It should also grasp the accountabilities and sanctions of participants in case of negligence, avoidance and misuse of corporate powers, governance policies, rules, regulations and acts.

2.3 What the Researchers were/are Looking for? The Spurious Findings

The research is still not very clear with regards to various aspects of corporate governance and manifests many inconsistencies. This is true particularly in case of research concerning the role of boards in corporate governance implementation resulting in enhanced firm performance. For instance, different corporate governance theories have highlighted the value of an effective board in corporate governance implementation. Extensive research has been done on composition or diversity or strength of the boards in order to find an effective combination that could ensure an effective implementation of the code. However in practice, its value is vague and less clear. Similarly, the findings on association between board composition (provision) and firm performance have also been found inconsistent. The researchers have failed to identify the actual mechanism behind this relationship, making the conclusions and relationships seem spurious. A spurious relationship is one in which two variables are related because they share a common cause, but not because either causes the other (Jaccard & Jacoby, 2011). Spurious relationship might exist when there is actual true co-variation between the two study variables. Simply there is no direct association between the two variables. If we scan the literature, most of the studies have not mapped the process through which a certain type of board could steer the implementation of corporate governance leading to higher performance.

For example, if we calculate the correlation between board size and firm performance, how can we rule out the presence of a third variable (a moderator or a mediator) that might be causing both the board size and firm performance to co vary. For instance, firms with large board size have shown to have low performance and vice versa. But co variation alone is not sufficient to establish a causal link between these two variables. When these variables are found to be correlated, it could mean that both the variables share a common cause: policies or decisions (see Figure 1), thereby illustrating that the effective decisions and policies made by board members lead to greater firm performance. The common cause of framing effective policies could be acting as a mediator that actually produces correlation between board (performance, composition and structure) and firm performance.

Board size is one of the important and well-studied boards characteristic (Van den Berghe & Levrau, 2004) because number of directors may influence the board functioning and hence effect the firm performance. According to Sonnenfeld (2002), a small board is considered good and a large one is considered not effective. Despite the fact that larger board brings pool of expertise, knowledge and skills, researchers have

found the negative relationship between board size and firm performance (Eisenberg et al., 1998; Conyon & Peck, 1998; Kumar & Singh, 2013; Ujunwa, 2012; Nyamongo & Temesgen, 2013; Yermack, 1996). According to them, large board size hinders the board progressions on reaching a consensus on important decisions because of the group dynamics problems because it is difficult to organize, communicate and coordinate the large number of board members. According to Van den Berghe and Levrau (2004), large pool of board normally faces decreased motivation and participation in different activities. Due to larger pool of members, they are keen to develop the blocs, because of difficulties in cohesiveness and diffusion of responsibilities. In sum, academic literature demonstrates that the large board size is less effective and resulted in low firm performance in all aspects such a return on assets (ROA), return on investment (ROI), return on dividends (ROD) and return on equity (ROE) etc. Therefore, research on board of directors emphasizes on board by integrating the group dynamics and workgroup effectiveness

Similarly, persistent empirical research on relationships between board structure (composition) includes the proportion of inside, outside and independent directors and firm performance whereby resulting in findings which are quite contrary. According to theory, the primary duty of the boards is to serve monitoring function (Fleischer et al., 1988) and most of the research pins on two theoretical perspectives i.e. agency theory and stewardship theory, that frame the foundation of dependence on insider and outsider directors (Van den Berghe & Levrau, 2004). The empirical study conducted by Hermalin and Weisbach (2001) and two reviews conducted by Zahra and Pearce (1989) and Finkelstein and Hambrick (1995) have found no direct support of the relationships. The researchers from both studies concluded the opposing results which might have been being artifactual. Empirical findings support the notion that outside directors significantly impact firm performance (Nyamongo & Temesgen, 2013; Ezzamel & Waston, 1993; Baysinger & Butler, 1985; Rosenstein & Wyatt, 1990; Pearce & Zahra, 1992; Wagner et al., 1998).Whereas, one also finds contrary view points by Donaldson and Davis (1991; 1994), that entirely support the stewardship theory. According to stewardship theory, managers are inherently trustworthy and best stewards for the assets they are controlling. Empirical findings also support the idea of stewardship that the insider directors are related to better performance (Kesner, 1987; Daily & Dalton, 1992, 1993; Zhang, 2012; Zahra & Stanton, 1988) and not the outside directors (Coles et al., 2001; Agrawal & Knoeber, 1996). These above contrary hunches demonstrate ambiguity in the literature on associations between boards' composition and firm performance. These findings also illustrate the importance of other different theoretical perspectives in explaining this complex relationship.

Likewise, stewardship and agency theories are also helpful in explaining the association between board leadership (CEO and Chairman role i.e., either combined or separate) and firm performance (Van den Berghe & Levrau, 2004). Combined leadership structure is grounded in stewardship where having separate roles of the CEO and the chairman is mainly grounded in agency theory. Splitting these two roles dilutes the power of the CEO and hence minimizes the influence of management to dominate the board. Rechner and Dalton (1991) have found that firms having separate leadership structure outperform those with a combined leadership structure. Ujunwa (2012) and Zhang (2012)

have found the negative association between CEO duality and firm performance. Whereas, Coles et al., (2001) and Donaldson and Davis (1991) found higher firm performance in the joint leadership structure. It is also noted from previous empirical findings that board leadership structure does not have any effect on firm performance (Dalton et al., 1998; Nyamongo & Temesgen, 2013; Rechner & Dalton, 1989). A review of extant research on board composition and structure highlights the intervening mechanism through which these might impact the performance of the firm.

3. METHOD

The extent empirical research on the relationship between board characteristics (i.e. board size, board independence and CEO duality) and firm performance are demonstrating contrary, vexing, varied, unreliable and inconsistent results. Researchers are striving to reach a consensus as regards to the relationship pertaining to board characteristics and firm performance, however it is imperative to understand that this is a daunting task and the road to obtaining such a consensus passes through a thorough exploration of the integrated mechanism which inculcates within it several factors intertwined with one another. To the extent of our knowledge, consensus on confirmative answer for the relationship between board characteristics and performance is yet to be established. Therefore, the study is an attempt to investigate the spuriousness between the board characteristics and firm performance with the help of 60 studies already conducted in period of 1996-2014. The detail of the type of studies incorporated for analysis in this study is mentioned in Table 3.

Table 3
Breakdown of Studies

Type of Studies	No of Studies
Empirical Papers	**55**
Meta-Analysis	**3**
Review Studies	**2**
Total Studies	**60**

Total 32 studies investigate the relationship between board size and firm performance (Table 4). Total 12 studies found positive relationship between and board size and firm performance. The results show that greater the board size the more the firm performance is. Inverse relationship has been identified in 18 studies between board size and firm performance. Moreover, 2 studies didn’t find any relationship between them.

Total 33 studies on board composition and firm performance have been speculated. Out of 33 studies under investigation, 18 studies discovered positive significant relationship between outside board’s directors and firm performance. Only 10 studies generated a negative relationship between outside directors and firm performance. Whereas, only a handful studies predicted no relation between outside directors and firm performance.

Table 4
Contrary Results in Relation to Performance

Nature of Relationship	Board Size	Board Composition		Diversity	CEO Duality
Positive Relationship	12	Outside Directors	18	3	1
Negative Relationship	18	Negative Relationship	10	0	4
No Relationship	2	No relationship	5	0	4
Total	**32**		**33**	**3**	**9**

Diversity in board composition refers in terms of ethnic and gender diversity. Only 3 studies found a positive relation between diversity and firm performance. Whereas, no study discovered neither negative nor any relationship between diversity and firm performance.

Out of 9, only a single study depicted a positive relationship between CEO duality (the dual role of chairman and CEO) and firm performance. Four studies have been found depicting a negative relationship between CEO duality and firm performance. Whereas, four studies speculated no relationship between CEO duality and firm performance. Therefore, from the above discussion, it has been revealed that the relationship between board size, board composition, board diversity and CEO duality with firm performance are contrary**.**

4. DEVELOPMENT OF FRAMEWORK

In the wake of corporate collapses around the world, a lot of suggestions have been made to rebuild trust of all the stakeholders by improving the governance mechanism. However, the corporate governance reforms primarily focus on board, its composition and structure (Van den Berghe & Levrau, 2004). The role of the board cannot be denied in improving governance and according to the Cadbury report (1999), board plays a role of a bridge among the owners and the management. By building better boards in term of balance, structure and composition, innovation and entrepreneurship could be encouraged. The structural components of board enable the stakeholders to evaluate the corporate governance. Therefore, board is the key for value driven and competitive edge of any firm.

Listed firms in most of the countries around the world have board of directors. The board of directors all over the world represents the interest of the shareholders and is responsible for determining the company's aims and strategies, plans and policies to achieve those aims as well as, monitoring progress in the achievement of those aims (Mallin, 2013). Simply, board members are responsible for the strategic direction and control of the company. Furthermore, board is responsible for the standing of the firm in a community (Van den Berghe & Levrau, 2004). This is because board of directors makes policies and decisions keeping in view the vision and mission, which are precisely the aims and strategies of the organization (see Figure 1, P 1).

Keeping in line with decisions and policies made by the board, the resource-based view (RBV) proposes that organizational resources serve as an engine for value creation through competitive advantage (Ireland et al., 2003; Sirmon et al., 2007). Firm's resources provide the basis for policies and decisions for the firm performance (Figure 1, P 2). Resources are rare, valuable, non-substitutable and costly to imitate (Barney 1991). Therefore, the board members also make decisions regarding the resource planning and allocation so that maximum performance of the organization could be delivered effectively and efficiently(see figure 1, P2).

The majority of work has been done on integrity and morality of CEOs (Ferrell & Ferrell, 2011; Reidenbach & Robin, 1990) which are initiated by executives. The common consensus by the researchers and practitioners is that the risk of misconduct is always prevalent in firms if good ethics and compliance programs are not developed by the senior executives. The CEOs along with the other directors are responsible for the different types of risk and risk assessment (SWOT analysis) (see Figure 1, P 3). The CEO has to develop a comprehensive understanding of risks. The board of the director exists primarily to hire, fire, monitor, and compensate management, all with an eye towards maximizing shareholders' value. Overall board plays a supportive role for achieving the performance of the company by developing policies keeping in mind the vision and mission of the organization. Explicitly, it is argued that possessing rare, valuable, non-substitute and costly to imitate resources offer value creation (Barney, 1991; Sirmon et al., 2007) in every situation (Figure 1, P 4). Resources provide competitive edge to firms because it possessed by fewer and non-substitutability lead higher cost to imitate. The prime pursuit of any organization is generating value (Conner, 1991). The board is the key for value driven and competitive edge of any firm. Therefore, building better boards in terms of balance, structure and compositions, innovation and entrepreneurship is encouraged.

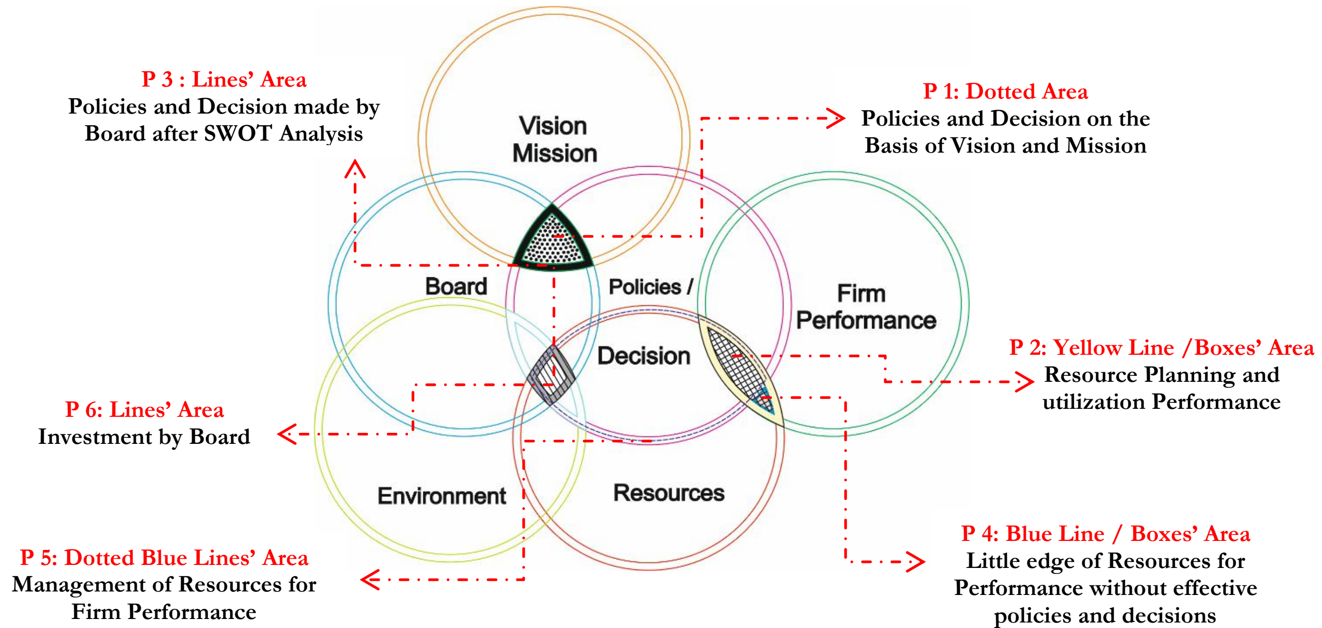

Figure 1:
Integrated Mechanism for Firm Performance

Further than that, contingency theory provides another insight and greater understanding of how the organizational resources can be managed in the environmental contingencies (see Donaldson, 2001). Organizational learning is very important for board of directors for the effective management of resources in rapidly changing environment (Sirmon et al., 2007) (Figure 1, P 5). Organizational learning is the acquisition of new knowledge by the actors who are able and willing to apply that knowledge in making policies and decisions (Miller, 1996: 486).

Management of resources is very important for value creation and competitive advantage for every organization (Sirmon et al., 2007). Competitive advantage contributes in accelerating the shareholders' wealth (Hoopes et al., 2003). Management of resources is shaped by the environment in which the organization operates (Brush, 2001). The policies and decisions that board members made are eventually for generating value creation, as it is only possible by the effective and efficient management of resources any analyzing the environment (Ireland & Webb, 2006). According to Child, (1973) (as cited by Andrews & Johansen, 2012), management makes strategic choices and decisions based on the assessment of the environment which is an essential determinant of organizational outcomes. It is also suggested that value is created only when the firm resources are evaluated, manipulated and deployed appropriately within the firm's environment (Lippman & Rumelt, 2003), as firms do not operate in a vacuum.

Resources are valuable for organizational performance and competitive advantage because they allow the organization to exploit the opportunities and help in neutralizing the threats from the external environment. According to the RBV (Barney, 1991), the capability of any firm can be judged on the resources that firm has. Therefore, the strengths and weaknesses of any firm are analyzed on the resources. Board of directors invest funds/money in company that ultimately increases the resources of the firm, hence helps in achieving organizational objectives (Figure 1, P 6).

4. CONCLUSION

This study has explored the contrary finding of board composition and firm performance. The relationships between the study variables are spurious and restrain the researcher, agencies and practitioners to develop the consensus for policy making and good governance to minimize the corporate collapse. Firms around the globe are operating in highly complex and uncertain environment. The developed integrated mechanism of firm performance in current study emphasizes a need to look at more comprehensive analysis and impact of the factors i.e., board characteristics, board structure, resources, effective policies and decisions, resource management within the environment on firm performance and value creation as also there is a lack of theoretical perspectives on how top management best transforms the resources to value creation (Sirmon et al., 2007; Priem & Butler, 2001). Hence, the better comprehension of the relationships may help to refine our thinking on the relationships and thereafter for development of good governance. The conceptual model that has been illustrated above provides a base for a new empirical stream on the corporate governance.

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