

## Effect of Board Composition on the Corporate performance: The Moderating Role of Corporate Governance Practices in Iraq

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### ABSTRACT

Governance is increasingly recognized by the business community, regulators and capital market authorities as a fundamental driver of corporate performance. Hence, the overarching objective of the current study is the development of a moderation model to investigate the effectiveness of these Board Structure characteristics in the presence of Corporate Governance Practices in Iraqi context. This paper follows a quantitative deductive approach to collect the data of 166 respondents from 207 Iraqi companies, 107 of which are listed on the Iraqi Stock Exchange and 100 companies with large capital and are not listed on the Iraqi stock exchange. Statistical Package for the Social Sciences (SPSS) and Structural Equation Modeling (SEM) through Smart PLS 3.3 have been used to analyze the hypotheses. The study provides robust evidence that board composition variables such as board educational level, board political connection and board ethnic diversity significantly affect the CP in the Iraqi context. However, the result propounds non-significant influences of Board gender diversity. Moreover, there is evidence that the presence of corporate governance practices tends to negatively moderate the influence of board political connection and board gender diversity on corporate performance. On other hand, corporate governance practices positively moderate the relationship between board ethnic diversity and firm performance. While does not affect board educational level.

These results give rise to certain regulatory and managerial implications, all of which, calls for more concerted efforts in strategically implementing prudent governance solutions in order to the future proof Iraqi market.

**KEYWORDS:** Board Structure, Corporate Governance Practices, Iraq, Corporate performance, Structural Equation Modeling (SEM).

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## 1. INTRODUCTION

As an essential component, internal company governance and the subsequent effects on organisational behaviour and board effectiveness were extensively discussed in current studies (Arora & Sharma, 2016; Arosa, Iturralde & Maseda, 2013). Board of directors' responsibilities served to guide and authenticate tactical decision-making in organisations (O'connell & Cramer, 2010) by appointing, supervising, and rewarding senior managers, integrating organisations into external contexts, and providing knowledge to managers (Kılıç & Kuzey, 2016). Although the aforementioned roles reflected the board of directors as crucial internal governance-oriented control mechanisms in organisations (Campbell & Mínguez-Vera, 2008), the functions and techniques affected the financial performance and overall capital expenditure of organisations (Terjesen, Couto & Francisco, 2016).

As a vital prerequisite for organisational sustenance and growth, performance was regarded as the process where limited organisational resources were efficiently managed to attain pre-determined, short, and long-term objectives, including increased shareholder wealth from the start to end of another duration (Berger & Di Patti, 2006; Marn & Romuald, 2012). Thus, the main shareholder objective in venture investments aimed to ameliorate wealth to a better level through successful business operations. Organisational performance also portrayed shareholder success on investments over a specific duration. Effective boards involved sound structures and nomination procedures to ensure that insiders and executive owners did not dominate board tasks and decisions. In protecting shareowner interests, boards must be adequately independent to offer various perspectives, such as investors' viewpoints on strategy, governance, and economic performance.

Boards should identify qualified professionals rather than nominating people with multiple current board

memberships. Corporate governance practices caused grave concern in many Asian nations following the Asian Financial Crisis in 1997, including Iraq (Zabri, Ahmad & Wah, 2016) and proposed that the practice involved short, medium, and long-term wholesome strategies that corresponded to organisational and shareholder interests (Achchuthan, Rajendran & Nadarajah, 2013). In this vein, organisational performance was an essential concept that was relevant to the manner and means by which organisational resources were cautiously used towards corporate objectives, company sustainability, and enhanced perspectives for future opportunities (Kajola, 2008). Good corporate governance practices also facilitated organisational performance (Chung, Wright & Kedia, 2003). In this regard, this study strived to investigate the moderating role of corporate governance practices on the relationship between board structure (board educational level, political connection, ethnic diversity, and female membership) and organisational performance in Iraq.

## 2

### . PAST LITERATURE AND HYPOTHESIS DEVELOPMENT

#### 2.1 Board Education Level and Firm Performance

Much research evaluated the board educational level-organisational performance relationship with varying outcomes. For example, Pohjanen and Bengtsson (2010) utilised a sample of 56 companies on the Stockholm

Stock Exchange (Sweden) big cap and revealed that high educational diversities would negatively impact organisational performance. Likewise, Mahadeo, Soobaroyen and Hanuman (2012) emphasised the boards in 39 public-listed organisations (including 371 directors on the Stock Exchange of Mauritius). The findings demonstrated that boards with diverse educational backgrounds led to low organisational performance.

Following the upper-echelon theory, various cognitive orientations, values, and knowledge based on top management (corporate board) notably affected decision-making and managerial behaviours in organisational performance (Hambrick & Mason, 1984). Specifically, educational level was generally perceived as a good proxy for human capital, knowledge base, and intellectual competence (Wiersema & Bantel, 1992). Based on Carson, Mosley, and Boyar (2004), the upper-

## 2.2 Board Political Connection and Firm Performance

Although past studies investigated political connection effects on organisational performance and value (Gilbert, 2011; Li, Meng, Wang & Zhou, 2008), the study outcomes were generally mixed (Maaloul, Chakroun & Yahyaoui, 2018). Maaloul et al. (2018) reflected that political connections enhanced organisational performance and value. Additionally, organisational benefits and favours could be derived from political ties, whereas investors were inclined to invest in politically-connected firms for potential benefits. In Malaysia, Wong and Hooy (2018) examined the impact of politically-connected organisations on the organisational performance of local companies with high ownership concentration. Resultantly, politically-connected corporations (through top government leaders' family members) demonstrated low organisational performance. The study outcomes also

**H2: Board political connection negatively influences firm performance.**

## 2.3 Board Ethnic Diversity and Firm Performance

Multiple studies that assessed the board ethnic diversity-organisational performance relationship revealed varying outcomes. Abdullah and Ku Ismail (2017) investigated the correlation between board diversity among the top 100 non-financial Malaysian companies, (directors' gender, ethnicity, and age) and the effects on organisational performance. Resultantly, the lack of diversity among Malaysian boards of directors following multivariate analyses indicated that gender diversity was negatively linked to Tobin's Q and return-on-asset (ROA). Age diversity was also discovered to be negatively associated with ROA. Contrarily, ethnic diversity was positively related to ROA. On another note, Hassan, Marimuth, Tariq and Aqeel (2017) analysed the correlation among demographic diversity in top management levels and the economic performance of organisations through 84 non-financial Malaysian companies. Specifically, demographic diversity

echelon theory proposed that top managers or BODs' higher educational backgrounds and corporate decision-making substantially affected organisational performance. Thus, the following hypothesis was developed:

**H1: Board educational level positively influences firm performance.**

indicated that only stable connections (government-linked firms and board of directors) from politically-connected boards reflected a positive relationship with organisational performance without family members' influences. Notably, most Asian corporations involved politically-connected boards, such as Malaysia and MENA nations (Omet, 2005).

Under the agency theory, the relationship between managers' political influences and compensations was positive when owners did not possess political influences. Regardless, owners with the influences surpassed managerial counterparts who did not need to generate additional compensations. Theoretically, this study contributed to the agency theory under the corporate governance domain as the owner-manager conflicts of interest were highlighted through political influences as a power balance. Hence, the following hypothesis was developed:

encompassed ethnic and gender diversity. The study employed data from 2008 to 2012 and indicated that ethnic diversity among top management teams and board of directors did not influence organisational performance (ROE).

Frijns, Dodd and Cimerova (2016) investigated the impact of cultural diversity among the board of directors on organisational performance with 243 finance companies in New Zealand. A national cultural diversity measure was developed by calculating the average of cultural distances between board members. It was revealed that national cultural diversity in boards negatively influenced the organisational performance assessed by Tobin's Q and ROA. Following the agency theory, different board ethnic diversity levels offered various organisational performance counterparts. In Singh (2007), companies with lower ethnic diversities experienced more wholesome resources and knowledge, hence benefitting the firm in terms of organisational performance. Salloum, Jabbour and Mercier-Suissa (2019) demonstrated the effects of minority ethnicity

concerning the financial performance of SME in Middle Eastern nations. With an incongruent panel of 1,855 organisations and annual observations of 371 board of directors from nine Middle Eastern countries, the study findings affirmed the positive effect of ethnic minority group members on Middle Eastern organisational external corporate environments. As Iraq was a Middle Eastern nation, this study corresponded to Salloum's et al. (2019) argument in proposing the following hypothesis:

**H<sub>3</sub>: Board ethnic diversity positively influences firm performance.**

#### **2.4 The Relationship between Board Gender Diversity and Firm Performance**

Several studies examined the board gender diversity-organisational performance relationship (Liu, Wei & Xie, 2014; Low, Roberts & Whiting, 2015; Lückerath-Rovers, 2013) and indicated a positive correlation as opposed to other research (Chapple & Humphrey, 2014; Dang, Nguyen & Vo, 2013), including specific periods of negative correlations (Adams & Ferreira, 2004). Low et al. (2015) stated that a high number of women directors positively affected organisational performance, primarily in a sampling of Asian corporations involving Hong Kong, South Korea, Malaysia, and Singapore. Lückerath-Rovers (2013) investigated the impact of female directors on organisational performance in a sampling of Dutch companies and summarised that organisations with female board directors outperformed other counterparts.

In this vein, the agency theory proposed that board gender diversity potentially induced efficiency as women directors improved board independence (Carter, D'Souza, Simkins & Simpson, 2010). Additionally, females on corporate board result led to higher diversity regarding experiences and competencies (Lucas-Pérez, Mínguez-Vera, Baixauli-Soler, Martín-Ugedo & Sánchez-Marín, 2015; Nielsen & Huse, 2010) and catalysed organisational innovations (Horbach & Jacob, 2018). Perryman, Fernando and Tripathy (2016) claimed that female board directors were more risk-averse and reserved in decision-making than male counterparts who were overconfident in decision-making. Consequently, the perspectives seemed to concede that female board directors tended to request more controlling mechanisms. Predictably, women directors on BD's might positively impact the demand for corporate governance mechanisms (board subcommittees). Given the increase of female directors on BDs, the possible establishment of board subcommittees would be bigger.

performance. With the rise of Western ethnic minority members, organisational performance tended to decrease as board members were chosen for regional and international board reputation and legitimacy, personal business agendas, and associations with

Specifically, female directors on BDs would seek control mechanisms for extensive supervision and the joint monitoring of management teams and other BD members with optimal decisions that positively impacted stockholders (Pucheta-Martínez & Bel-Oms, 2019). Hence, the following hypothesis was developed:

**H<sub>4</sub>: Board gender diversity positively influences firm performance.**

#### **2.5 The Moderating Effect of Corporate Governance Practices on the Board Structure Characteristics-Firm Performance Relationship**

Although the corporate governance role towards organisational performance is gaining focus in developing economies (Claessens & Yurtoglu, 2013), the need to emphasise the corporate governance of business groups following substantial impacts was evident (Khanna & Yafeh, 2005). As such, this study reviewed relevant literature that associated corporate governance characteristics (board educational level, board political connection, board ethnic diversity, and boards gender diversity) with organisational performance.

The advent of globalisation and financial significance in developing economies resulted in scholarly interest in corporate governance in developing countries. As the effect of corporate governance codes on organisational performance in developing economies remained limited (Haat, Rahman & Mahenthiran, 2008; Ponnu, 2008), this study strived to provide useful insights into dynamic governance structures in developing markets resembling Iraq. Following OECD, Du Plessis, Hargovan and Harris (2018) stated that the efficient utilisation or implementation of corporate governance codes and principles potentially improved pre-conceived organisational objectives. For example, Cadbury (1992) emphasised the enhancement of corporate governance codes and practices towards transparency, accountability, integrity, and sustaining efficient information network disclosure for high organisational performance. In this vein, Almanasir and Shivaraj (2017) claimed that practical and effective corporate governance principles were essential in reducing economic conflicts and improving organisational performance.

The corporate governance legislation and rules issued by government and international agencies generally encouraged organisations and countries to attract foreign investments. The corporate governance codes subsequently guaranteed investor security with protection from scandalous corporate deeds. Notably, no one size fit the overall method to attain effective governance (Bhagat & Bolton, 2009; Black, De Carvalho & Sampaio, 2014). It was also proposed that governance practices varied by nation (Doidge, Karolyi & Stulz, 2007; Shleifer & Vishny, 1997) following institutional growth backgrounds (Peng & Jiang, 2010). In this vein, government body regulations aimed to develop governance codes in line with optimal international practices that were deemed appropriate for corporate environments. As the Iraqi régime failed to frame corporate governance codes to date, this study encompassed some board diversity characteristics that influenced organisational performance with corporate governance.

A clear principle on board responsibilities and functions was necessary to protect firms and stakeholders from conflict of interests between principles and agents, hence minimising agency costs and

### 3.

## METHODOLOGY

### 3.1 Research Design

This study employed a quantitative research method that encompassed a clarification system through associations with specific variables that could be condensed into numerical data and generalised in superior populations (Kumar, 2019). This study was also structured to employ a survey method in questionnaire development to attain study responses and a sound understanding of monitoring organisational performance in Iraqi firms.

### 3.2 Data Collection

This research emphasised the CEOs of listed and private Iraqi organisations. Towards the middle of 2020, 107 samples from 207 firms were chosen from the Iraqi Stock Exchange that denoted all listed companies in 2019 and the top 100 Limited Liability companies with the largest capital that were not registered on the Iraqi Stock Exchange. Consequently, the CEOs were notified and contacted through email to complete the online questionnaire and survey. A total of 166 questionnaires were duly returned with an 80% response rate. Online

maximising organisational performance (Aljuaid, Dixon & Michael, 2016). Corporate governance practices also facilitated active collaborations between organisations and stakeholders to establish wealth, employment, and financial sustenance (OECD, 2004). In this regard, good corporate governance practices could act as a moderating role to enhance organisational performance and board accountability and operations. Hence, the following hypotheses were developed:

**H<sub>5</sub>: Corporate governance moderates the relationship between board educational level and firm performance.**

**H<sub>6</sub>: Corporate governance moderates the relationship between board political connection and firm performance.**

**H<sub>7</sub>: Corporate governance moderates the relationship between board ethnic diversity and firm performance.**

**H<sub>8</sub>: Corporate governance moderates the relationship between board gender diversity and firm performance.**

survey advantages were also numerous. For example, Wiersma (2013) claimed that online surveys were one of the most affordable and convenient data collection strategy that involved limited social bias impacts. Despite the current convenience in creating online surveys compared to conventional means, not all the survey features were easy to perform, specifically during the COVID-19 pandemic.

### 3.3 Measures

All the variable measurements were adapted from past research where respondents were required to answer based on a 7-point Likert scale. Specifically, all the study items were assessed with anchors ranging between 1 for 'strongly disagree' and 7 for 'strongly agree.' A total of five study constructs were utilised with the last questionnaire version including 50 items (see Appendix 1) together with factor loadings.

#### 3.3.1 Firm Performance

Various financial and non-financial performance were empirically provided. The two perspectives potentially assessing financial and non-financial performance



involved objective and subjective performance measure concepts. In the subjective approach, respondents were asked to state financial and non-financial organisational performance on specific criteria, such as return-on-investment (ROI), ROA, and sales and profit growth relative to competitors. This study adopted five items from Albatayneh (2014), Rettab, Brik and Mellahi (2009) and Samiee and Roth (1992) to analyse financial performance (ROI, ROA, and sales and profit growth) and non-financial performance with five items from Khong and Richardson (2003).

### 3.3.2 Corporate Governance Practices

Corporate governance items were structured to highlight conceptualised corporate governance terms in this study. The items were specifically designed based on 16 measures that were classified into four corporate governance dimensions following research conceptualisation and adaptations from Otman (2014). Each measure was denoted by a corresponding item that resulted in 16 items for the corporate governance dimension.

### 3.3.3 Board Educational Level

Board members' educational level reflected a valuable organisational resource in achieving all resource criteria. Various board directors' educational levels could be manipulated by firms to facilitate strategic decision-making and competitive advantages. Predictably, directors with lower educational levels experienced relatively higher levels of unlimited experiences at the workplace or some other environments compared to directors with higher educational levels where the education systems were integrated with restricted syllabi and curricula. Moreover, directors with lower educational levels might encounter opportunities to attain experiences that might not be available in classrooms (Katmon, Mohamad, Norwani & Al Farooque, 2019). In the study context, board educational level was efficiently defined through dimensions encompassing the term. Given that past research highlighted restrictions in the utilisation of a single

technique, this research assessed the overall board educational level with six items (Ageda, 2015; Cruz-Machado, Lev, Nickel & Xu, 2014; Tarigan, Hervindra & Hatane, 2018).

### 3.3.4 Board Political Connection

Political link was a significant corporate governance variable with two distinct perspectives. Firstly, it was assumed that political links might harm registered companies by undermining firms without connections. In this vein, organisations with political connections demonstrated inadequate development. Secondly, political connections were useful for registered companies due to resource availability (Wang et al., 2018). The items assessed for board political connections were subsequently adopted from past studies (Dicko, 2017; Faccio, 2010). As such, the five items were employed to measure the variable.

### 3.3.5 Board Ethnic Diversity

Regarding social and cultural identity variations among people in specific employment or market contexts, social and cultural identities denoted personal affiliations with groups (Marimuthu, 2008a). The study construct was assessed with multi-item scales that were primarily adopted from current literature (Leung, 2015; Zhuwao, Ngirande, Ndlovu & Setati, 2019). In this vein, six-item scales were utilised to assess board ethnic diversity.

### 3.3.6 Board Gender Diversity

The existence and acknowledgement of women could positively catalyse and enhance organisational performance for additional decision-making perspectives (Campbell & Mínguez-Vera, 2008). In the study context, board gender diversity was outlined through dimensions that efficiently encompassed the term. As past studies indicated restrictions in the employment of a single approach, this study assessed the overall board gender diversity with seven items (Nielsen & Huse, 2010).

## 4.

## DATA ANALYSIS AND RESULTS

### 4.1 Measurement Model

It was deemed essential to affirm the reliability and validity of the measurement model before model scrutiny

or hypothesis-testing to determine if the instrument measures employed for data collection truly performed the assessment.

#### 4.1.1 Reliability Testing

Reliability was generally reflected through internal consistency reliability and Cronbach's alpha value exceeding 0.70 (Nunnally, Bernstein & Berge, 1967). In this study, Composite reliability (CR) of each construct in the study model was also assessed for internal consistency, hence denoting internal construct reliability following consistencies (similar concept measures) amongst construct measures. In this regard, the CR value must exceed 0.70 to affirm that the construct indicators denoted the latent variable (Hair, Ringle & Sarstedt, 2011). Hence, all the CR values exceeded the proposed cut-off of 0.70 (see Table 1).

#### 4.1.2 Validity Testing

##### 4.1.2.1 Convergent Validity

Convergent validity guaranteed the total construct measures in authentically assessing similar constructs or concepts and moving in similar conceptual directions. In the study context, convergent validity was assessed with

average variance extracted (AVE) for the captured variance magnitude from distinct indicators compared to the amount resulting from the measurement error (Chin, 1998). In supporting an acceptable convergent validity, the AVE of each model construct exceeded 0.50 (Fornell & Larcker, 1981) (see Table 1).

##### 4.1.2.2 Discriminant Validity

Discriminant validity was reflected in the presence of low correlations among each construct measure in the study model to evaluate a diverse concept (Hair Jr, Hult, Ringle & Sarstedt, 2016). In the study context, discriminant validity was measured through relationships among construct correlations and the square root of AVE. The square root value of AVE in each construct was greater than the correlation score with all other constructs (Fornell & Larcker, 1981). Following Table 1, the square root of AVE (shown diagonally) was higher than the correlation with other constructs (off-diagonal numbers), thus satisfying the discriminant validity test.

Table 1: Reliability and validity testing

	CR	AVE	BE	BET	BP	CGP	FM	FP
BE	.981	.895	0.946					
BET	.976	.873	0.556	0.934				
BP	.931	.730	0.329	0.398	0.854			
CGP	.975	.711	0.127	0.376	0.080	0.843		
FM	.941	.696	0.831	0.895	0.401	0.292	0.834	
FP	.988	.891	0.528	0.530	0.535	0.309	0.576	0.944

## 5.

### STRUCTURAL MODEL EVALUATION

Upon analysing the reliability and validity of the measurement model, the bootstrapping method using 500 samples was employed to identify the path coefficients of the study hypotheses.

#### 5.1 Hypothesis Testing Results

The structural model and hypothesis-testing results were attained after running PLS-SEM with the structural model assessment by examining the study hypotheses through path coefficient evaluation. Consequently, the hypothesised relationship was analysed with bootstrapping, wherein large sub-samples were derived

from the initial counterpart (with replacement) to provide bootstrap standard errors, hence offering a recommended *t*-value for the significance test of the structural path. Regardless, *p*-values that corresponded to the possibility of the erroneous rejections of null hypotheses based on the study data were often reported (Hair et al., 2011; Hair Jr et al., 2016) as lower *p*-values denoted higher relationship significance. Upon running PLS-SEM, it was discovered in the direct effects model that **H4 (Board Gender Diversity -> Firm Performance)** was insignificant, whereas the remaining hypotheses (**H1, H2, and H3**) were significant (*p*-values below 0.05 and *T*-values over 1.96).

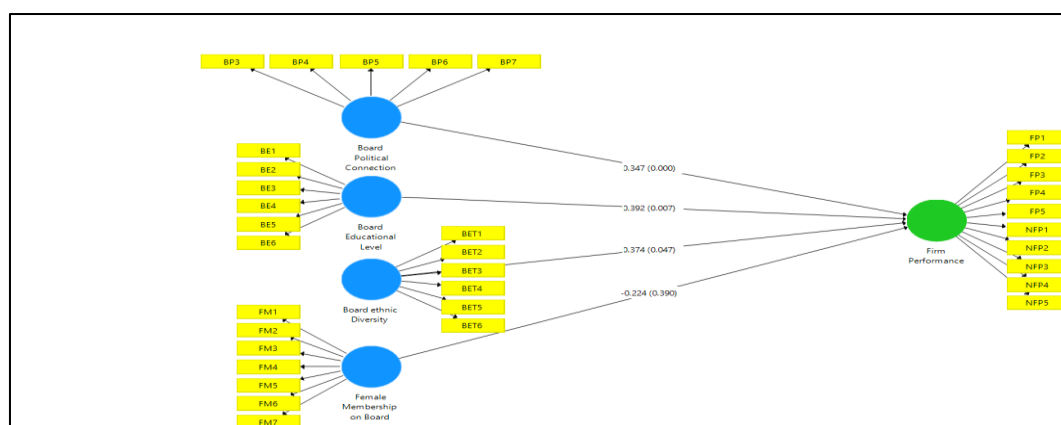


Figure 1: Structural model (direct effect of board composition on firm performance) showing path coefficients and *p*-values (in parentheses)

The structural model was utilised in the next step to generate moderating variable outcomes. Specifically, this study recommended assessing the moderating effect of CGP in the board composition-firm performance relationship in Iraq. A two-stage method was employed to establish interactions among the moderator (CGP) and

four independent study constructs (BE, BP, FM, and BET). As such, four study hypotheses were developed and examined with PLS. Three out of the four hypotheses with moderation effects were supported. For example, **H6, H7, and H8** were supported, whereas **H5** was not supported.

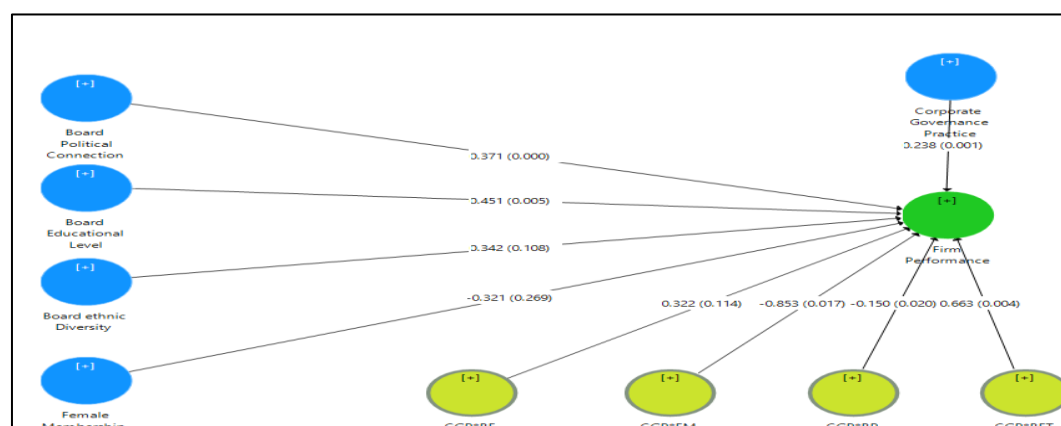


Figure 2: PLS figure for a moderation effect

Hypothesis-testing outcomes were presented in Table 2 and Figures 1, 2, 3, 4, 5, and 6. Figure 1 presents the path coefficients and *p*-values for overall associations (direct effect of board composition on firm

performance). The moderation effect results illustrated both path coefficients and *p*-values (see Figure 2).

Table 2: Path coefficient of the model

Sr. No.	Path	Path Coefficient	T Statistics	P Values	Hypotheses Decision
1	BE-> FP	0.392	2.824	0.007	Supported
2	BP -> FP	0.347	4.743	0.000	Supported
3	BET-> FP	0.374	1.990	0.047	Supported
4	FM-> FP	-0.224	0.876	0.390	Not Supported
5	CGP*BE -> FP	0.322	1.583	0.114	Not Supported
6	CGP*BP -> FP	-0.150	2.334	0.020	Supported
7	CGP*BET -> FP	0.663	2.811	0.004	Supported
8	CGP*FM -> FP	-0.853	2.388	0.017	Supported



In wholly comprehending the underpinnings of moderation using interaction terms, a simple slope analysis was performed (see Figures 3, 4, 5, and 6). In the aforementioned figures, green, red, and blue lines signified high, mean, and low moderator positions. The moderation analysis outcomes are presented as follows:

(A) The CGP negatively moderates the relationship between (1) board political connection and firm

performance and (2) board gender diversity and firm performance.

(B) The CGP positively moderates the relationship between (1) board ethnic diversity and firm performance.

(C) The CGP does not have any moderation effect on the relationship between board educational level and firm performance.

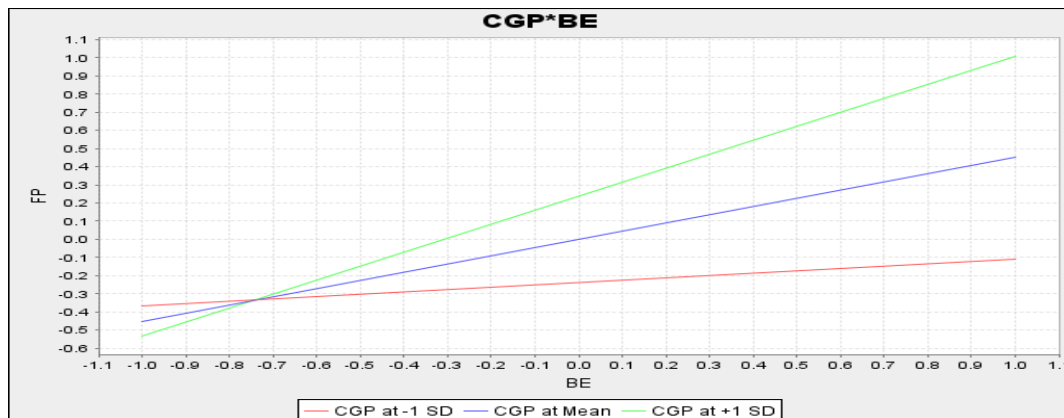


Figure. 3: Moderation of corporate governance practice on the relationship between board educational level and firm performance

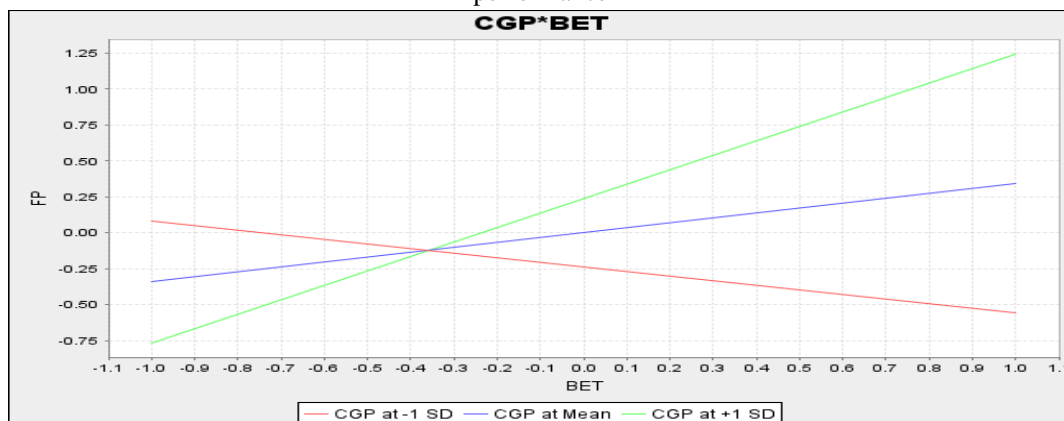


Figure 4: Moderation of corporate governance practice on the relationship between board ethnic diversity and firm performance

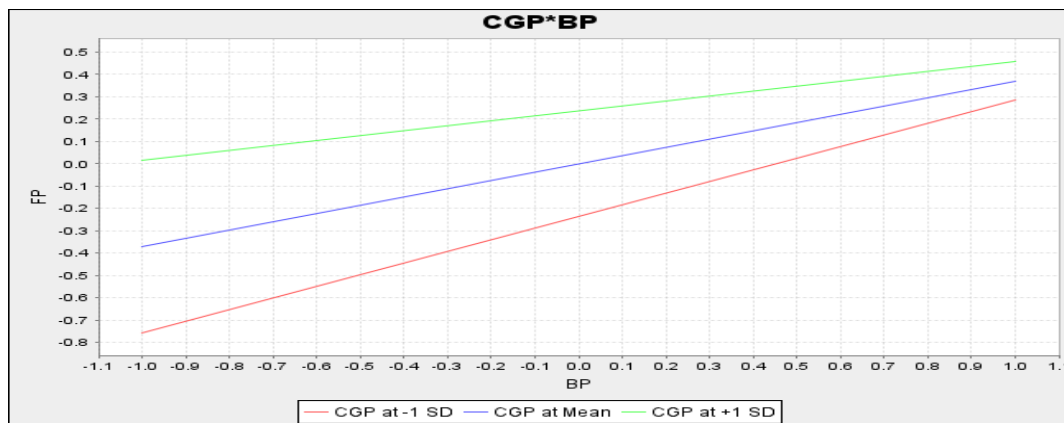


Figure 5: Moderation of corporate governance practice on the relationship between board political connection and firm performance

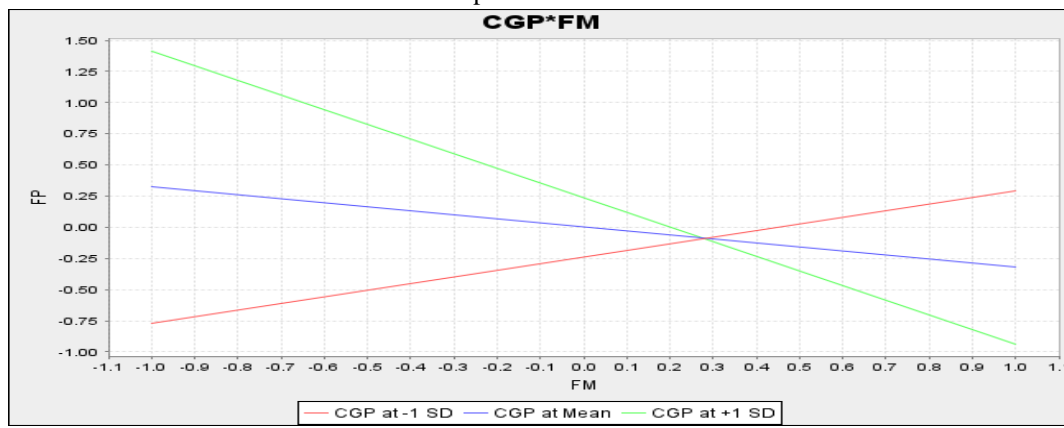


Figure 6: Moderation of corporate governance practice on the relationship between board gender diversity and firm performance

## 6.

### DISCUSSION, IMPLICATIONS AND LIMITATIONS

#### 6.1 Discussion on Direct Effect

##### 6.1.1 Board Educational Level and Firm Performance

In the study context, board educational level positively impacted organisational performance in Iraqi firms. Resultantly, the proposed relationship was statistically significant at 95 per cent confidence interval ( $\beta = 0.392$ ,  $t$ -value = 2.824, and  $p$ -values = 0.007) with significance at  $p < 0.01$ , thus affirming **H1** in line with past research on organisational performance (Francis, Hasan & Wu, 2015; Post, Rahman & Rubow, 2011). It was revealed that board educational level substantially influenced organisational performance (Bennouri, Chtioui, Nagati & Nekhili, 2018; Darmadi, 2013; Phan, 2016; Suwaidan, 2016) following possibly diverse perspectives on the responsibilities to be executed. Predictably, higher

educational levels among boards would induce more professional results for better organisational benefits and performance.

##### 6.1.2 Board Political Connection and Firm Performance

Given that board political connection was investigated based on organisational performance, **H2** predicted that “board political connection negatively influences firm performance.” The outcome reflected a positive significant link between board political connection and firm performance ( $\beta = 0.347$ ,  $t$ -value = 4.743, and  $p$ -values = 0.000) and significance at  $p < 0.01$ , hence not supporting **H2** in line with other findings (Choi, Chung, Hong & Young, 2020; Maaloul et al., 2018) in various organisational contexts.

Dicko (2016) revealed that political connection was negatively associated with organisational performance among Canadian financial institutions.

Saeed, Belghitar and Clark (2016) also claimed political connection to be one of the primary directors affecting organisational performance. Thus, political involvement in Iraqi businesses was explored in this study through direct measures of board members' political connections. Past studies on political connections highlighted that Iraqi public firms inevitably benefitted from the politically-connected board of members. As the primary aim of business organisations involved profitability, profits substantially determined organisational presence in business contexts. For example, firms strived towards performance enhancement through credible and knowledgeable individuals with an awareness of corporate activities in businesses for crucial positions and decisions that potentially impacted the future of the company.

### 6.1.3 Board Ethnic Diversity and Firm Performance

This research proposed a positive board ethnic diversity-firm performance relationship. First, it was empirically proven that board ethnic diversity crucially impacted Iraqi firm performance (Jedi & Nayan, 2018). Resultantly, significant differences were identified in the board ethnic diversity-organisational performance correlation. The correlation was statistically significant at 95 per cent confidence interval ( $\beta = 0.374$ ,  $t$ -value = 1.990, and  $p$ -values = 0.047) with significance at  $p < 0.05$ . Thus, **H3** was supported as the result was positive and significant at 5%. The outcome corresponded to past studies that investigated board ethnic diversity in Iraqi firms (Brahmana, Razali & You, 2017; Hassan & Marimuthu, 2016; Mary, Pratiwi, Loren & Ilona, 2020; Scholtz & Kieviet, 2018), where board ethnic diversity potentially improved decision-making processes, policies and procedures, and networking.

### 6.1.4 Board Gender Diversity and Firm Performance

This study predicted a positive board ethnic diversity-firm performance correlation. Specifically, gender diversity could induce efficient problem-solving capacities following the diverse perspectives that enabled direct decision-makers to cautiously make evaluations and decisions. Resultantly, a negative non-significant link between board gender diversity and firm performance ( $\beta = -0.224$ ,  $t$ -value = 0.876, and  $p$ -values = 0.390) did not support **H4**. Hence, gender diversity did not essentially matter in identifying organisational performance in Iraqi firms following research with no connection between gender diversity and organisational performance (Rose, 2007). Joecks, Pull and Vetter

(2013) recommended that gender diversity could initially impact companies negatively unless the board encompassed approximately 30% of women, thus reversing the influence towards higher financial performance as opposed to male-dominated boards. For example, Joecks et al. (2013) revealed that higher board gender diversity led to more board efficiency and output benefits. Regardless, the sole presence of one woman on the board did not adequately reflect diversity to influence organisational performance.

## 6.2 Discussion on Moderating Effects of Corporate Governance Practices

### 6.2.1 Corporate Governance Practices Moderate the Relationship between Board Educational Level and Firm Performance

This study hypothesised that corporate governance might moderate the effect on the board educational level-firm performance correlation (CGP\*BE  $\rightarrow$  FP). Resultantly, the  $p$ -value was 0.114 (exceeding the assumed value of 0.05). In this vein, corporate governance between board educational level and organisational performance proved insignificant and implied that the integration of board educational level with corporate governance was not essential to identify organisational performance in Iraqi firms following several past studies. Specifically, no relationship was identified between board educational level, organisational performance, and corporate governance in firms (Adewuyi & Olowookere, 2013; Bhagat & Bolton, 2009).

### 6.2.2 Corporate Governance Practices Moderate the Relationship between Board Political Connection and Firm Performance

Predictably, corporate governance might demonstrate a moderating effect on the board political connection-firm performance correlation (CGP\*BP  $\rightarrow$  FP). Resultantly, corporate governance practice associations with board political connection and organisational performance reflected a negative direction ( $\beta = -0.150$ ) with high  $t$ -statistics ( $t = 2.334$ ) and significant with  $p$ -value ( $p = 0.020$ ) that was below the proposed value of 0.05. As corporate governance practices negatively moderated the board political connection-firm performance relationship, the study results offered proof to affirm **H6**. In this regard, the presence of corporate governance practice did not improve organisational performance following board political connection impacts in Iraq.

The finding corresponded to several past studies on the relationship between political connections,

organisational performance, and corporate governance in firms (Aljuaid et al., 2016). In specific countries, political connections affected capital allocations through financial support mechanisms in the wake of severe economic circumstances. As such, the study findings affirmed a positive association between organisational performance and political connections. Although organisations benefitted from political links by receiving bailouts during economic downturns, firm performance notably improved with governmental bailouts as novel firm types tended to require bailouts. Nevertheless, failing organisations might not improve in performance despite governmental bailouts.

### 6.2.3 Corporate Governance Practices Moderate the Relationship between Board Ethnic Diversity and Firm Performance

It was hypothesised that corporate governance might have a moderating effect on the board ethnic diversity-firm performance relationship (CGP\*BET  $\rightarrow$  FP). Specifically, the apposite direction ( $\beta = 0.663$ ) with *t*-statistics ( $t = 2.811$ ) and *p*-value ( $p = 0.004$ ) was below the proposed value of 0.05. As such, corporate governance among board ethnic diversity and organisational performance was significant and implied that board ethnic diversity with corporate governance substantially determined organisational performance in Iraqi firms. In this vein, the hypothesis was affirmed following past research on the relationship between board ethnic diversity and organisational performance in firms (Chuah & Hooy, 2018; Guest, 2019; Marimuthu, 2008b; Marimuthu & Kolondaisamy, 2009). The effect of board ethnic diversity on organisational performance observed the essential and distinguishing study aspect (the extent to which ethnic diversity impacted the monitoring roles of boards) on which the first empirical proof was provided. In this vein, regulators, investors, and diversity advocates contended that ethnic diversity potentially reinforced board monitoring.

### 6.2.4 Corporate Governance Practices Moderate the Relationship between Board Gender Diversity and Firm Performance

It was hypothesised that corporate governance might have a moderating effect on the board gender diversity-firm performance (CGP\*FM  $\rightarrow$  FP). Resultantly, a negative direction ( $\beta = -0.853$ ) with *t*-statistics ( $t = 2.388$ ) and *p*-value ( $p = 0.017$ ) revealed that the hypothesised moderating effect was statistically significant in a negative way and confirmed **H8**. In this regard, performance enhancement in Iraqi companies could be

realised without interactions between corporate governance practice and board gender diversity following insufficient female board directors. Similar to Sweden (Pohjanen & Bengtsson, 2010) and Spain (Campbell & Mínguez-Vera, 2008), large-cap Iraqi companies involved minimal female engagement in boardrooms to substantially impact Iraqi firms through female participation. Conclusively, it was proposed that gender homogeneity had more competitive advantage than board members' heterogeneity. Predictably, both genders might possess different perspectives in organisational management that resulted in frictions and lower organisational performance. The outcomes might be influenced by small average samples of gender diversity, hence demonstrating that board gender compositions were incongruent and manipulated by male directors (Adams & Ferreira, 2009; Gordini & Rancati, 2017; Marinova, Plantenga & Remery, 2016).

### 6.3 Study Implications

This study offered several essential contributions to current literature on board structure mechanisms, organisational performance, and efficient corporate governance practices in the current Iraqi Stock Exchange. As such, the study outcomes potentially enhanced the understanding of corporate governance under the agency theory in developing nations, specifically Iraq.

Various novel contributions were made in this study. Under the agency theory, the board structure impact on organisational performance was investigated with crucial corporate governance mechanisms as a moderator variable in Iraq. The emphasis on Iraq proved essential to investigate the link between board structure and organisational performance using the agency theory under distinct Iraqi institutional backgrounds. With the rise of registered companies in the Iraqi Stock Exchange, attempts to improve board efficiency in Iraqi organisations were deemed necessary to enhance organisational performance. Notably, this study was the first to evaluate the impact of board educational level, board political connection, board ethnic diversity, and board gender diversity on organisational performance in Iraq.

The second contribution emphasised the empirical investigation of the impact of corporate governance practices that moderated organisational performance. Based on arguments following the agency theory (Jensen & Meckling, 1976), this study

spearheaded investigations on the impact of corporate governance practices on organisational performance in Arabian countries, particularly Iraq. Therefore, the empirical research results added to the general understanding of the roles involving agency-oriented issues in Iraq and the Middle East. As Iraqi business environments relied on private sectors, this study demonstrated that enhanced governance practices subsequently elevated organisational performance. In this vein, this study denoted vital consequences for corporate sectors, investors, policymakers, international agencies, governments, and shareholders following the importance of corporate success to the national economy.

## 7. CONCLUSION

The robustness of a research project depended on the capacity to acknowledge the study limitations. Although study contributions on finance-oriented literature were offered in the previous section, such contributions were only effective when the limitations were determined. Likewise, the study findings revealed drawbacks that required acknowledgement when analysing the findings and highlighting opportunities for future study areas. In this regard, the study limitations were presented in the following paragraphs. Notably, this research was also limited to the study variables involved: board educational level, board political connection, board ethnic diversity, board gender diversity, corporate governance, and firm performance. As respondents'

observations were restricted to established organisations, the outcomes might not reflect the complete interpretation of key firm determinants. Additionally, corporate governance impacts on organisational performance involved intricate relationships that might prove insufficient to be demonstrated in one study. Moreover, the study model indicated primary variables that potentially affected organisational performance (board of commissioners, ownership structures, and risk management committees) and were duly disregarded.

Future studies may consider the aforementioned limitations for more detailed insights into the study area. More research is required to investigate the influence of board structure roles on organisational performance, particularly in investigating the impact of boards members' educational levels, genders, experiences, and age on organisational performances for a sound understanding of boards efficiency components in Iraqi registered firms. In bridging the study gaps in specific areas, a more comprehensive understanding of board practices and subsequent impacts on organisational performance could be generated. Investigations on the effect of various board committees (audits, remunerations, and nomination committees) on organisational performance could also be encouraged. Additionally, further studies on the aforementioned influences could extensively examine each committee impact on the performance of registered Iraqi firms

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### Appendix 1. Survey instrument and factor loadings

Note: All the items were measured on a seven-point Likert scale (1 = strongly disagree; 7 = strongly agree).

Construct/Item	Factor loading
<b>FP: Financial Performance</b> (Albatayneh, 2014; Kang, 2016; Rettab et al., 2009; Samiee & Roth, 1992)	
FP1 In my company our return on investment has been substantially increase.	0.929
FP2 In my company our return on assets has been substantially increase.	0.913
FP3 In my company our sales growth has been substantially increase.	0.931
FP4 In my company our profit growth has been substantially increase.	0.952
FP5 In my company the financial performance targets achievement by branches.	0.940
<b>NP: Non-Financial Performance</b> Khong and Richardson (2003)	
NP1 The level of our customer satisfaction with our services is high.	0.948
NP2 In my company the customer relationship with management is excellent	0.956
NP3 In my company the transaction delivery is on-time.	0.953
NP4 In my company the accuracy of operational work produced in your unit and/or the quality of the service delivered is accurate.	0.959



NP5 In my company number of innovations, process improvements, or new services or products launched and implemented by my unit is updates. 0.960

**CG: Corporate Governance Sources:** Otman (2014)

**Accountability**

AC1 Accountability at different levels is defined and shared with everyone in my company 0.859

AC2 In my company the board monitors the effectiveness of the company's governance practices. 0.894

AC3 Our board is very effective in dealing with directors who are under-performing or exhibit poor behavior 0.804

AC4 The board's policies are up to date and frequently reviewed 0.875

**Fairness**

FA1 In my company board members act in the best interests of the company and the shareholders. 0.890

FA2 In my company an annual audit of the company is conducted by an independent auditor. 0.849

FA3 In my company the board keeps an outstanding working relationship with the other staff 0.871

FA4 The board periodically reviews the staff contract to assure appropriate support and compensation. 0.885

**Transparency**

TR1 In my company, corporate guidance is provided through defined and established needed communication structure for sharing the objectives of the organization and strategies 0.927

TR2 In my company the financial and operating results of the company are disclosed 0.916

TR3 In my company the board supervises the process of disclosure and communication. 0.944

TR4 In my company, correct, quality and timely information are shared to all involved in decision making at different levels 0.881

**Independence**

IN1 In my company the board understands and fulfilled its role and responsibility. 0.874

IN2 In my company, the board express its authority only as a unit 0.877

IN3 Board members evade conflict of interests as well as the perception of such conflict. 0.948

IN4 In my company decision made has no sense of conflict of interest 0.911

**BE: Board Educational Level Items** (Ageda, 2015; Cruz-Machado et al., 2014; Tarigan et al., 2018)

BE1 The numbers of directors that hold PhD is greater than non-PhD holders in my firm's board. 0.947

BE2 The numbers of directors that hold MBA is greater than non-MBA holders in my firm board 0.940

BE3 The board in my firm has directors with accounting, auditing or financial expertise. 0.922

BE4 Directors with higher qualifications in board guarantees the honesty of the firm's financial reporting. 0.942

BE5 New members of the board of directors obtain training to board roles as well as the institution in my firm 0.959

BE6 The board job assessment procedure helps the board enhance its performance. 0.966

**BP: Board Political Connection Items** (Dicko, 2017; Faccio, 2010)



BP1	Politically connected directors often have stronger competitive advantages than non-politically connected directors.	0.727
BP2	Directors with political connection ensures an effective organization of resources in my company.	0.885
BP3	Politically connected directors' evasive behavior of the management proposals or agenda is viewed as an act contrary to behavioral norm of my company.	0.842
BP4	Directors with political connection guides in developing strategic options in my company.	0.931
BP5	Directors with political connection involved in evaluating product quality and customer satisfaction.	0.873

**BED: Board Ethnic Diversity Items** (Leung, 2015; Zhuwao et al., 2019)

BET1	In my company board members are appointed from different ethnicity.	0.948
BET2	Ethnically varied boards are not likely to produce high quality decisions and possess efficient problem-solving skill in my company.	0.922
BET3	Ethnically diversity has an advantage where diverse type of directors offers diverse useful skill to the company.	0.926
BET4	People from diverse ethnic groups have diverse sets of attitudes, cognitive functions and beliefs which promote healthy debate in corporate board.	0.923
BET5	In my company the processes and procedures focused on diverse skills and troublemaking views	0.941
BET6	Ethnically diverse board would not have an impact on a company.	0.945

**FM: Board Gender Diversity Items Sources:** Adapted from (Nielsen & Huse, 2010)

FM1	There is a female director's board in my company.	0.811
FM2	Female directors have different professional experiences than men in my company.	0.797
FM3	Female directors have diverse set of standards and morals than men in my company.	0.791
FM4	Female directors have influenced the way the board reviews and guide corporate business strategy in my company.	0.867
FM5	Female directors are equally active in discussions compared to men in my company.	0.870
FM6	Female directors have influence on governance issues which in my company.	0.838
FM7	Female directors are involved in evaluating product quality and customer satisfaction in my company.	0.860