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The Effect of Gender Diversity on Remuneration Packages in Saudi Arabia

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Abstract: *Gender diversity among corporate directors has garnered increased appeal in recent times. Current studies have shown increased female representations in boardrooms is capable of enhancing performance, governance, and effectiveness. Thus, regulating bodies such as the Organization for Economic Cooperation and Development has been promoting such initiative, especially among developing countries such as Saudi Arabia, where such representation is still low. Therefore, this study seeks to investigate the level of gender-diversity's representation among listed Saudi corporations' boardrooms viz. directors' remuneration packages. The descriptive analysis reveals that only 12% of the 136 Saudi corporations sampled have female directors on their boards. In addition, results from the regression analysis shows a positive relationship between gender diversity and directors' compensation packages (P = 0.039). Such findings might indicate the corporates' appreciation of women directors' exercising their responsibilities and commitments: thus, they are highly compensated for their efforts. Or this positive association might be accredited to female directors' power in negotiating their compensation packages in alignment with the interests of their male counterparts regardless of attributes and contribution as specified by the managerial power theory. This exploratory research study serves as one of the first of its nature in the Saudi context examining Saudi female directors' participation on corporates' boards in relation to their remuneration packages.*

Keywords: Female Directors, Board's Remunerations, Corporate Governance, and Accounting

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1. Introduction

The increase in number of female directors in boardrooms, particularly in areas such as corporate governance and corporate performance has led to positive corporate outcomes (OECD, 2019; Liao, Zhang & Wang, 2019). Therefore, many countries worldwide have taken the initiative of women empowerment in corporates' boardrooms via adopting a diversity representation quota. Such initiative was initially implemented by countries like Norway: setting its board-diversity representation quota at the 40% level. Many other countries worldwide followed suite shortly after such as, Spain, France, Netherlands, Denmark, Greece, Finland, Italy, Slovenia, and Belgium. Boards' diversities aim not only to improve the gender balance in the corporates' boardrooms, but also to enhance the degree of governance in terms of monitoring, transparency & disclosure at the boardroom level. Therefore, corporations are highly advised to increase female directors' existence, and participations in boards of directors (Usman et al., 2019; Izquierdo, Méndez & García, 2018; Pasaribu, 2017).

The implementation of Saudi Vision 2030 saw an increase in the participation rate of females in the Saudi Arabian work force from 17.7% in 2016 to 33.7% in 2021 (Saudi General Authority of Statistics, 2021). Additionally, in neighbouring countries such as Bahrain, Egypt, UAE, and Jordan such trend has also been observed (OECD, 2020). It is not a coincidence to witness such phenomena in these neighbouring countries and it is due to their transformational economic plans that view women participations and leaderships as essential for building value-creating private markets. In fact, female directors have been playing progressively important roles in corporates' governance worldwide, and their existence and representations have been increasing in boardrooms (Seierstad et al., 2017, Helfat et al., 2006; Nielsen & Huse, 2010).

2. Significance of the Study

This study aims to examine the relationship between female directors and boards' remuneration pay-packages. As the rate of female directors' representation in boardrooms is increasing, this upcoming research shall examine how such diversity might affect remuneration packages at the board level.

This paper serves as an empirical contribution to the corporate governance literature in the context Saudi Arabia by exploring how gender diversity affects remuneration packages in light of the managerial power theory. Previous research has examined and investigated diverse boardrooms, but their pertaining characteristics such as gender and power were neglected and often ignored. Therefore, this research undertaking will examine the distribution of power in boardrooms in lights of the existence of female directors, which might explain why some corporations benefit from gender-diverse boards while others do not.

3. Literature Review & Hypothesis Development

Previous studies on boardrooms gender diversity have disclosed that women in boardrooms led to enhancements in boards' monitoring competency (Campbell & Mínguez-Vera, 2008) and improvements in financial performances of companies that operate in complex environments (Francoeur et al., 2008). In addition, significant women participation in boardrooms is found to enhance boards' strategic controls (Nielsen & Huse, 2010) and boards' effectiveness (Lucas-Pérez et al., 2015). Moreover, gender diversity in boardrooms is reported to be positively associated with boards' attendance records and sensitivity of CEO's turnovers to stock returns (Adams & Ferreira, 2009). In addition, female directors are also found to be more inclined to vote against raising CEO's pays (Konrad et al., 2008) and are regarded as tough overseers (Adams & Ferreira, 2009). Furthermore, female directors are recognized to increase corporates' boards' independence (Lucas-Pérez et al., 2015).

Conversely, Pletzer et al. (2015) alluded that boards gender diversity may incur poor firms' performances resulting from negative consequences, such as increased interpersonal conflicts and impaired communication and collaboration. Likewise, results of two meta-analyses revealed that gender-diversity, in boardrooms, is found to have no influence on firms' performances (Pletzer et al., 2015; Post & Byron, 2015). Nevertheless, Adams and Ferreira (2009) argued that boardrooms' gender-diversity does not necessarily assert positive influence on corporates' performances; however, such diversity is witnessed to enable improved monitoring functions in boardrooms, as female directors are found to contribute much more in monitoring and supervisory committees. Moreover, they also observed that female directors' presence enhances the overall attendance at boards' meetings.

Furthermore, corporations opting to elect their boards' members from more diverse talents and skills available, without exercising gender-specific agenda of discrimination when selecting nominees (Johnson, 1997), are found to be considerably more profitable due to their applications of power dynamics (Pamies, 2015).

Undoubtedly, power dynamics play an important role in the adoption and application of ideas; hence, affecting corporates' strategies and their implementations. In fact, previous research has supported the effects of authority in boardrooms, and revealed that the distribution of authority among directors affects their level of involvements, monitoring, and consequently their remuneration packages (Westphal & Zajac, 1995; Golden & Zajac, 2001; Finkelstein & Mooney, 2003). Hence, it is misleading to assume that all members of diverse boards will have equal influences on corporates' strategies, and thus their remuneration packages. Therefore, on the basis of this argument, this study hypothesises:

H_1: There is a positive association between female directorship and directors' remuneration packages.

4. Methodology & Framework

4.1 Sample & Data

This study employs a secondary data method to collect all data. All secondary data is derived from the Saudi Arabian Stock Exchange's website (Tadawul), and from listed Saudi corporations' financial reports for the year-ending 2021. The data and information collected were filtered to ensure reliability, validity and accuracy. Missing data such as directors' remuneration packages information in the annual reports, and unavailable or incomplete annual reports are excluded from the total population. The final sample consists of 136 listed Saudi corporations as prescribed in Table 4.1.

Table 4.1: Sample of The Study

Description	Number of corporations
Tadawul Population	203
Less: Unavailable Annual Reports	49
Less: REITs firms	18
Final Sample	**136**

Data on female directors and directors' pay-packages are mainly hand-collected from the 2021 annual reports of listed Saudi corporation available on Saudi Stock Exchange's website. In addition, all control variables considered are listed and shown in the following diagram. The research model employed for this study is in line with previous research models examining directors' remunerations such as Lee and Isa, (2015), Nyambia and Hamdan (2018), Ntim et al. (2017), and Sarhan et al. (2019).

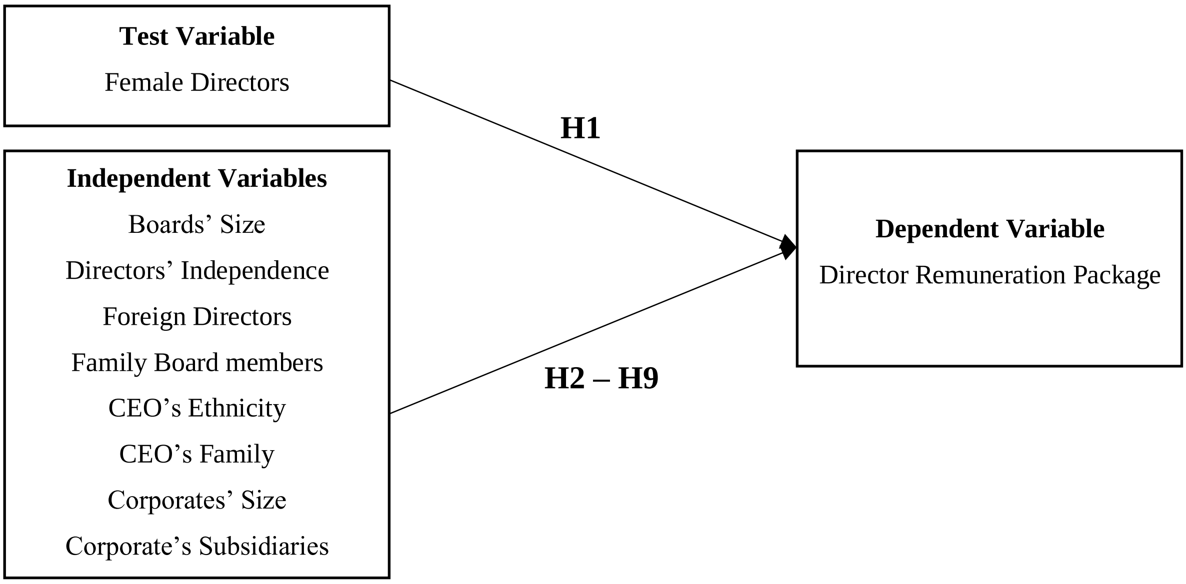

Figure 4.1: Research Framework

4.2 Variables

Emulating previous research models and suggested variables in relevant literature, the current study examines boards of directors' total remunerations as a dependent variable. These comprised salaries, bonuses, and financial benefits. Moreover, this current undertaking utilizes the remuneration's logarithmic value, (*Log*BRP), in order to reduce differences detected in remuneration packages across analysed corporations. Hence, such logarithmic values can lead to decreasing the effects of heteroskedasticity and increasing robustness.

Female directors in boardrooms to the total boardrooms' sizes (*Female*Dir) is used as a proxy to test the main variables namely; diversity,and boardrooms. Also, in accordance with previous research concerned with boardrooms' remuneration packages, this research controls for 1) boards' structures (*Indp*Dir, *Size*Dir, *Fam*board, *Foreign*Dir), 2) CEO's structure (*Fam*CEO, *Ethnic*CEO) ,and 3) corporates' characteristics' variables. Boards' structures' control variables include (Subs, *Epyee*Cost, Size).

The inclusion of boardrooms' structures in this study is derived from the fact that directors in boardrooms are responsible for monitoring top management. In addition, CEO's structures are considered for the power directors possess over decisions concerning their corporations (Bebchuk & Fried, 2004). Lastly, corporates' specific characteristics are considered as they are capable of conveying the economical standings of the sampled corporations, and capable of affecting directors' remuneration packages. All considered variables are presented in Table 4.2

Table 4.2: Variables & Measures

Type of Variables	Name of Variables	Measurements
Dependent Variables	Board Remuneration Package (*Log*BRP)	Total Remuneration packages' Logarithmic value includes (Salaries, Allowances, Benefit, bounces…etc.)
Independent Variables	Female Director *(Female*Dir*)*	Proportion of female directors to the total od boards' size
Control Variables	Directors' Size *(Size*Dir)	Total board's size

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http://myjms.mohe.gov.my/index.php/ajrbm

Directors'Independence *(Indp*Dir*)*	Proportion of independentdirectors' to the total boards' size
Foreign Directors *(Foreign*Dir*)*	Proportion of foreign directors to the total boards' size
Family Directors (*famboard)*	Proportion of family directors on boards to the total board's size
Family CEO's (*Fam*CEO)	Dummy variable; 1 if CEO is a family member to family board, 0 otherwise
Ethnicity CEO's (*Ethnic*CEO)	Dummy variable; 1 if CEO is non Saudi (foreign), 0 if CEO is Saudi
Authorized Capital *(size)*	logarithm of the total capital authorized
Number of Subsidiaries *(subs)*	Number of subsidiaries
Employees' Cost *(Epyee*Cost*)*	logarithm of employees' cost (i.e., revenues, salaries, administrative costs)

4.3 Model *Specifications*

The association between women directors, structures of boards, CEO's structures and firms' specific attributes with boards' remuneration packages is designed based on the following research model;

$$\mathit{Log}\text{BRP} = \beta_0 + \beta_1\, \mathit{Female}\text{Dir} + \beta_2\, \mathit{Size}\text{Dir} + \beta_3\, \mathit{Indp}\text{Dir} + \beta_4\, \mathit{Foreign}\text{Dir} + \beta_5\, \mathit{Fam}\text{board} + \beta_6\, \mathit{Ethnic}\text{CEO} + \beta_7 \mathit{Fam}\text{CEO} + \beta_8\, \text{Size} + \beta_9 \mathit{subs} + \beta_{10}\, \mathit{Epyee}\text{Cost} + \text{error term (1)} - \textbf{Equation}_{\mathbf{1}}$$

The main hypothesis considers female directors as a test variable in relation with boards' remuneration packages.

5. Analysis of Results

5.1 Descriptive Analysis

The below Table 5.1, shows the descriptive statistics for the main variables (boards' compensations, female board members, boards' structures, CEO's structures and corporates' attributes including minimums, maximums, means and standard deviations. In total, 12% of listed Saudi corporations have gender diversity on their boards, 87 % of listed Saudi corporations have no female directors, 11% of the corporations have one female director and 1% have two female directors. This 12% implies that men dominate most of the Saudi corporates' board membership, especially when considering the sample size of this study, which is all 203 of listed Saudi corporations on (Tadawul), but usable data was found for only 136 listed Saudi corporations.

Table 5.1: Descriptive Statistics

Variables	Minimums	Maximums	Means	Std. Deviations
FemaleDir	0	2.00	0.13	0.30
SizeDir	3.00	12.00	8.20	1.60
ForeignDir	0	4.00	0.35	0.83
ForeignDir (Proportion)	0	0.44	0.04	0.10
Famboard	0	7.00	1.01	1.43
Famboard (Proportion)	0	0.77	0.13	0.18
FamCEO	0	1.00	0.10	0.30
EthnicCEO	0	1.00	0.11	0.32
Subs	0	30.00	1.89	4.23

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EpyeeCost	1,365,589.00	25,604,325.00	618,021,552.84	2,981,102,697.91
LogEpyeeCost	14.10	23.80	18.43	1.74
Board Remuneration	0	128,100,000.00	8,753,959.60	19,721,052.05
LogBRP	12.70	18.70	15.48	1.32
Size	64,800,000.00	41,665,938,150.00	3,125,120,538.05	6,756,999,797.62
LogSize	17.99	24.45	20.61	1.49

Table 5.2: Female Directors' Statistics

Female Director	Frequency	Percentage
0	119	0.87
1	16	0.117
2	1	0.007
Total	**136**	**100**

As revealed in Table 5.1, board remunerations', as a dependent variable, its Mean is SAR8.75 million, and its standard deviation is SAR19.7 million. In addition, the board of directors' size is approximately 8, with a minimum of 3 directors, and a maximum of 12 directors. The presence of foreign directors is found limited. Only 4% of Saudi listed corporations are found to have foreign directors. This low representation can be linked to the Saudi tax laws, imposing a 20% tax rate on capital gains generated by non-nationals. Furthermore, the sampled firms spend on average about SAR618 million on employees' costs.

5.2 Regression Analysis

The regression analysis, as prescribed in Table 5.3, reveals a significant association between female directors and boards' pay packages, supporting the hypothesis (H_1). The result shows new empirical evidence from the Saudi boards' diversity context on remuneration packages. Hence, it is evident that a few listed Saudi corporations are implementing gender-diversity as a governance mechanism. Such implementation is accompanied with a positively significant association between the existence of female directors in boardrooms, and higher remuneration packages (P= .039). Such positive association might be reflective of these listed corporations' appreciation of female directors' commitments and handling of their responsibilities during the tenure of their directorships. Or, perhaps, such positive association is due to the power of female directors in setting up their boards' remuneration packages to align with the interests of other boards' members regardless of their contributions as predicted by the managerial power theory.

The association results, in Table 5.3, include all considered control variables. For instance, board's structure control variables such as *Foreign*Dir and *fam*Board are found negatively significant to *logBRP*, (p = 0.03) for both. Hence, boards characterised as having a high proportion of foreign directors and controlling families' directors are found negatively associated with boards' remuneration-packages. Therefore, such results provide a substantial support to the managerial power theory: predicting that power of boardrooms is lower when composed of independent directors, whether foreign or family, in which case, directors' remuneration packages are expected to be lower. This is due to the fact that diligent boards, with independent chairpersons and high proportions of independent directors, can efficiently determine their directors' pays.

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Table 5.3: Regression Analysis-Multivariate Analysis

Variable	(Equation 1)	
	Coefficient	**p-value**
Female Director (*Female*Dir)	2.075	0.039
Director Size *(Size*Dir*)*	-0.530	0.598
Director Independence *(Indp*Dir*)*	1.074	0.287
Foreign Director *(Foreign*Dir*)*	-3.065	0.003
Family Board (*famboard)*	-3.065	0.003
Family CEO (*Fam*CEO)	1.657	0.103
Ethnicity CEO (*Ethnic*CEO)	2.091	0.041
Authorized Capital *(size)*	3.192	0.002
Number of Subsidiaries *(subs)*	2.360	0.022
Employee Cost *(Epyee*Cost*)*	4.482	0.000
Constant	2.095	0.000
Adjusted R^2	0.617	
F-stat	12.104	

CEO's structures control variable EthnicCEO shows a significant association with boards' total pay-packages. The coefficient EthnicCEO is found positive, and significant at (P=. 041), signifying that CEO's ethnicity as a control variable have a positive relationship with boards' compensations. This result shows that the CEO's structure influences the chances for management to manipulate compensation packages, especially when considering the ethnicity of CEOs, and whether such ethnicity represents a majority, Saudi CEOs, at the board level as depicted by this study. This finding has a valuable implication of the managerial power theory, especially when the EthnicCEO variable represents a very low level of non-nationals on boards dominated by Saudi nationals. Hence, it is more likely for those majority board members to align their interests with the Saudi CEOs' at the expense of their shareholders for the sake of increasing their remuneration packages.

Furthermore, control variables such as *Epyee*Cost, size, and subs are found highly significant at (p = 0.002; 0.022; 0.000) respectively. Hence, these findings signify the associations between boards' compensations' packages and corporates' resources.

6. Conclusion

Due to some corporates' realizations of the enormous benefits of having female directors on boards such as enhanced financial performances, better governance structures, and higher level of boards' effectiveness, female directors have become well-sought after by successful western corporations. However, in the Middle East, initiatives of increasing the number of women in boardrooms have been championed by professional bodies as the masculine corporate culture is still inhibiting their presence. Nevertheless, the findings of this study are quite encouraging especially from the perspective that, still, there are a few Saudi corporations appreciating the existence gender-diverse boards as shown via the positively significant association of female directors' presence with their offered remuneration packages. These findings support the set-out hypothesis, revealing such significance in the Saudi corporates' context. There are no doubts that diverse boards composed of highly qualified individuals regardless of gender are capable of impacting positively corporates' financial performances, governances, operations and their overall boards' effectiveness.

Gender diversity, in current research undertakings, is found to be associated with a broad range of business benefits for corporates' boards such as improved governance, enhanced decision-making, enriched market knowledge, enlarged customers' satisfaction, and improved reputations. Therefore, corporations shall thrive to properly implement their diversity-initiatives. In fact, Morgan Stanley's Capital International's survey of 2015 on Women on Boards has revealed further evidence that corporates' boards with high representations of female directors tend to have fewer controversies, governance related issues, and better performance ratings (MSCI, 2015). Indeed, these sort of beneficial outcomes will contribute towards enhancing investors' confidence; thus, will result in increase of corporates' values both socially and financially.

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