3 Literature Review

3.1 Introduction

This chapter reviews previous relevant research about corporate governance and the boardroom as it works as a principal mechanism of corporate governance. It will examine previous research undertaken about the role of the boardroom, directors' duties, sub-committees, and how the board should work to protect shareholder interests. It will also look at boardroom structure, and the selection and nomination of directors, as well as reviewing the impact of ownership, and that of the chairperson on the boardroom. It will examine previous research undertaken about boardroom diversity in context; this part will review previous research relating to the diversity types chosen for exploration. The chapter will also explore previous studies relating to boardroom diversity, boardroom effectiveness, and different mechanisms of effectiveness will be identified. Organisational performance and how this relates to boardroom effectiveness, as well as diversity, will also be assessed. Gaps in previous research will be identified, and an outline of the importance of the current context will be presented. Lastly, background information about board diversity and board effectiveness in the Middle East and in North African (MENA) countries, including in Saudi Arabia, will be given.

3.2 Corporate Governance (CG)

3.2.1 Definition and Background

There is no single definition of corporate governance (CG). However, as noted by Garratt (2017, p. 4) some concepts of corporate governance were first seen over three thousand years ago in Western culture, and the word "governance" is derived from the Greek word *Kubernetes*, meaning "steersman of the ship". The term "corporate governance" has a dual and linked meaning that alludes to providing direction for the future and the prudent control of an organisation (Garratt, 2017, p. 4). A recent study by Shah and Napier (2019) suggests that the concept of corporate governance should be explored more widely, rather than through the narrow lens of economics (e.g., agency theory, for example), to include the political environment etc. The aforementioned study raises the question of why the term "corporate governance" is used rather than the terms "corporate direction", "court of governors" or "board of directors"; it is because the concept relates to how something is managed by a group of people rather just by one governor (Shah and Napier, 2019, p. 338). This argument illustrates how the board of directors is an essential mechanism for the oversight of corporations on behalf of shareholders in particular, and stakeholders in general.

https://doi.org/10.1515/9783110741735-003

Walker (2009, p. 23) defines CG as follows: "The role of corporate governance is to protect and advance the interests of shareholders through setting the strategic direction of a company and appointing and monitoring capable management to achieve this." It is notable that this definition by Walker mainly concerns the protection of shareholders. However, the role of CG is much broader than this. For instance, creditors, employees, and other stakeholders all stand to benefit from good corporate governance. In this respect, Walker's definition misses an important aspect of corporate governance, which is stakeholder interests relating to business activity.

Another definition by Solomon (2021, p. 7) is presented thus: "Corporate governance is the system of checks and balances, both internal and external to companies, which ensures that companies discharge their accountability to all their stakeholders and act in a socially responsible way in all areas of their business activity." Solomon focuses attention on all stakeholders, as well as the social aspects relating to business activities. This definition is broader than the previous definition offered by Walker. It covers all businesses and social environments, which makes it better than Walker's definition. However, Solomon's definition misses the importance of the priorities of different stakeholders (e.g., shareholders, creditors, employees, and other stakeholders). Shareholders have priority over creditors, and creditors might have priority over employees, and so on, depending on context.

According to Rezaee (2009), CG has two main goals, namely, value creation and protection. Value creation relates to enhancing shareholders' profits by using strategy and sustainability. Value protection concentrates on using accountability to protect shareholders and other stakeholders' interests by managing and monitoring the firm. It is hard for a firm to act in the interests of all stakeholders at the same time. This is why Rezaee (2009) divides corporate stakeholders into three tiers: shareholders, creditors, and other stakeholders. Therefore, any CG system might be better when it acts on behalf of the shareholders to promote value creation and protection as a first priority, and then to protect other stakeholders and social interests at a second stage. Shareholders are the most important element of stakeholder layers, because they own the company and can impact indirectly on the CG system.

3.2.2 Corporate Governance Mechanisms

The mechanisms of CG are various, and scholars do not agree on the characteristics of these tools (Jensen, 1993). However, Cadbury (1992, p. 14) offers a basic definition of corporate governance as, "the system by which companies are directed and controlled." Furthermore, it can be argued that the mechanisms of CG are anything that contributes to the direction and control of the company. Moreover, as CG develops, CG mechanisms improve too. For example, recent improvements in CG relate to social and environmental elements (see, IFC, 2018). However, there is general agreement between scholars that the mechanisms of CG can be identified as both internal mechanisms (those that work inside of the company) such as boardroom and ownership structures and external mechanisms (those that work outside of the company or through the market) such as regulations (Denis and McConnell, 2003; Al-Baidhani, 2013).

Some scholars highlight the important role of dispersed ownership as an effective tool for monitoring management and voting for the board of directors (Chen, 2001; Shleifer and Vishny, 1986). Fama and Jensen (1983) talk about the importance of the separation of decision making and control by owners, as a mechanism to solve agency problems. Furthermore, Fama (1980) suggests that board structure is a vital mechanism of CG (specifically, non-executives who ensure that executives are using systems consonant with the interests of shareholders). The size of the board has also been identified as a governance mechanism (see Beiner et al., 2004), and board composition (e.g., board size, number of independent directors, and diversity) has also emerged as a CG mechanism.

In light of the above, it is reasonable to see why scholars have not found a standard classification of CG that applies to all firms in all nations (Weir et al., 2002). The finance and accounting field seems to focus on inner mechanisms, such as transparency, audit committees, and disclosure to shareholders only, while recent studies concentrate more on the mechanisms associated with the boardroom and its performance regarding accountability to the stakeholders and society (Brennan and Solomon, 2008). This research considers board diversity as an essential CG mechanism (as suggested by Bernile et al. (2018) which can be used to reap social and business benefits.

3.2.3 Boardroom Roles and Duties

The traditional function of the boardroom is to act on behalf of shareholders. This is described in the Cadbury (1992) reports, in addition to other roles, such as applying governance in the company, strategy, leadership, monitoring management, and reporting to shareholders. New CG mechanisms have expanded to serve both shareholders and stakeholders. For example, guidance on running effective boards as issued by the FRC GBE (2018, p. 3) states that the boardroom should, "assess shareholder and stakeholder interests from the perspective of the long-term sustainable success of the company." Money and Schepers (2007) explain that raising CG awareness should not only consider shareholder value alone, but should include stakeholder value as well. The effective boardroom should develop its roles to work for the interests of shareholders and stakeholders (Garcia-Torea et al., 2016). In this respect, board duties and functions have changed over time in parallel with CG development.

There are three broadly shared and recognised roles assigned to the corporate boardroom: the control role, the strategic role, and the service role (Zahra and Pearce, 1989). The control duty is recognised by scholars as monitoring executive management (oversight) and company performance (Hillman and Dalziel, 2003; McNulty et al., 2011; Abdullah et al., 2016; Harjoto et al., 2018). This role could be influenced by board independence or independent directors (see Abdullah et al., 2016). The strategic task is not based on daily decisions made, but by more occasional decisions taken by the boardroom that have a primary bearing on the company's existence and health (Bathula, 2008). Many scholars also relate the strategic capabilities of the boardroom to board structure, e.g., diversity (Walt and Ingley, 2003; Terjesen et al., 2008; Kim et al., 2009; Taghavi Moghaddam et al., 2018). The service duty relates to advice that the board provides to executive management and the resources that the board comes up with to contribute to the boardroom (Johnson et al., 1996). These resources include advisory opinion, networking, and other benefits that are provided by directors in line with resource dependency theory as outlined by Pfeffer and Salancik (1978). The service duty also includes an institutional role, including that of building relationships with all stakeholders, including the shareholders, and the community as a whole (Clarke, 2007). These roles are influenced by board structure and are based on previous research (see, Ben-Amar et al., 2013; Abdullah et al., 2016; Goyal et al., 2019).

The above roles constitute the boundaries of the work of the boardroom, while the board itself is a mechanism of governance. Still, the functions attributed to the board differ according to the differences in the laws of corporate governance from one country to another (Brennan, 2006). For example, the UK CGC (2018) outlines the principles of board function and provides more detail and separate guidance for board effectiveness, to help control how boardrooms in the market carry out their roles more effectively; this is a replacement of the Higgs Report of 2006 (FRC GBE, 2018). This approach reduces the occurrence of bad subjectivity by different companies and enhances accountability and governance (Arjoon, 2019). The Saudi CGC provides only guidance on some of these elements. Another observable difference between UK regulations and Saudi regulations is that UK guidance on board effectiveness requires diversity of board structure, while the Saudi CGC does not. This illustrates the difference between the roles of board directors across different countries, and is impacted by board composition. A study by Ben Rejeb et al. (2019) reveals that board diversity positively moderates associations between ambidextrous innovation and the boardroom service role and strategy role.

Abidin et al. (2009) outlines the sum of scandals and past failures of corporate boards which have driven new standards of responsibility for boards of directors; failures include market crashes, a shortage of accountability towards stakeholders, the lack of a monitoring role, and management working only for their own benefit (Kılıç and Kuzey, 2016). Hence, it is essential that boardrooms fulfil their functions and duties effectively, because if they do not this might lead to company failure (Nahar Abdullah, 2004). Where Saudi boardrooms are concerned, increasing board diversity could influence board effectiveness and improve the director's role in the market.

3.2.4 Boardroom Committees and Diversity

Boardroom committees are used for CG to study decisions and submit changes to the board with opinions, to enhance decision-making. To evaluate a board's effectiveness and diversity, it might be relevant to consider the structure of these committees, and how many decisions are made by these groups of committees (Kesner, 1988). Carter et al. (2007) states that the impact of diversity (e.g., gender and racial diversity) within the composition of a committee for financial performance appears to be both delicate and complicated. Carter et al. (2010) fail to find any association between gender or ethnicity diversity on substantial committees and company outcomes in US companies. In contrast, Green and Homroy (2018) find an associated effect of female representation on boardroom committees and positive company performance. The number of studies about the impact of diversity on different committees is increasing, but many of these focus on gender diversity alone. For example, Adams and Ferreira (2009) find that women's attendance at committee meetings is better than that of their male counterparts, and that women tend to be more likely to be linked with monitoring committees, such as nomination committees, audit committees, and CG committees, but less frequently with serving on compensation committees, in comparison with men.

Mixed results have been found on diversity within compensation committees. For instance, Adams and Ferreira (2009) reveal no significant association between gender diversity within compensation committees and CEO pay level; because of the lower degree of female representation on such committees, the result may not significantly determine this relationship. Strobl et al. (2016) expands the work of Adams and Ferreira (2009) by using more variables to explore the relationship between women's representation on compensation committees and CEO pay. Their findings are consistent with those of Adams and Ferreira (2009). Conversely, Bugeja et al. (2016) suggest that one or more women serving on a compensation committee can prevent an increase in CEO compensation. Usman et al. (2018) show that, in Chinese companies, gender diversity within compensation committees is linked with CEO compensation, and is more closely linked to company performance, but only in the case of independent women; this relationship appears more efficient in the case of government ownership which faces critical agency problems in context.

Gender diversity within audit committees has been studied by scholars in many different ways, for example: from the perspective of audit fees (Lai et al., 2017; Ittonen et al., 2010); the quality of audits (Sultana et al., 2020; Lai et al., 2017; Srinidhi et al., 2011); earnings management (Sun et al., 2011; Thiruvadi and Huang, 2011); and an increased number of committee meetings (Thiruvadi, 2012). However, there exists disparities between the results of these studies. Chijoke-Mgbame et al. (2020) indicate that female presence on audit committees is positively associated with company performance in Nigeria. Meanwhile, a study by Sultana et al. (2020) argues that, after gender diversity rules were adopted in Australia, the quality of auditing declined in companies which had gender diversity within their audit committees. Furthermore, Srinidhi et al. (2011) and Thiruvadi and Huang (2011) find that women's representation on audit committees is positively associated with decreased discretionary accruals, which leads to higher quality earnings reporting. In contrast, Sun et al. (2011) find no association between female presence on audit committees and earnings management. Also, Ammer and Ahmad-Zaluki (2017) find that having more women on audit committees may increase the number of errors in earnings forecasts and reduce precision. These studies indicate that there is inconsistency in the literature, and that some researchers focus more on gender while ignoring other types of board diversity, in the context of committees.

Audit committees are considered important by many stakeholders, but stakeholder perceptions about diversity in this context has been less investigated (see Kakabadse et al., 2015). Also, it is difficult to identify a holistic body of knowledge that captures the consideration of diversity's effectiveness when creating boardroom committees.

3.2.5 Protecting Shareholders Rights and Boardroom Diversity

Shareholders are those who own a firm, and they elect a board of directors to act in their interests. The board of directors is an important mechanism of the internal CG system (John and Senbet, 1998). The main job of the board of directors is to represent shareholders' interests and to reduce agency problems that result from the separation of ownership and control of the company (Fama and Jensen, 1983). In other words, the job of the board of directors is to align shareholder and stakeholder interests with management interests. Thus, the board of directors performs an essential function in terms of creating value and safeguarding shareholder funds and other stakeholder interests, and board diversity is one tool that can enhance this role. The connection of diversity to CG relates to the composition of the board and the numerous attributes, separations, varieties, and disparities of board members (Harrison and Klein, 2007).

The diversity of the board has become an important part of corporate governance around the world, and, particularly, at the moment, focus is on gender diversity. The role diversity plays in the boardroom is a hot topic nowadays, due to the growth of big corporations globally (Bell, 2011). Many scholars argue that boardroom diversity enhances CG (e.g. Adams and Ferreira, 2009; Buse et al., 2016; Lucas-Pérez et al., 2015; Abad et al., 2017), and many developed countries now recognise the importance of diversity in their CG systems. For example, in the UK, the Tyson Report (2003), the Lord Davies Report (2011), and the Corporate Governance Codes of 2012 and 2016 all recognise the importance of diversity. Also, a similar view is taken in other countries such as in Spain, Italy, the US, and in Norway. For instance, Terjesen et al. (2015) reports that sixteen countries operate governance codes that encourage the appointment of women board members, while fourteen other countries have made reporting on women member quotas mandatory. Western based research tells us that there are benefits behind enforcing such laws in business life, but this might be not the case in other countries. Furthermore, opinions about diversity vary in developing countries.

In emerging economies, board diversity is applied to some extent. For example, in Malaysia, the Government adopted a policy in 2011 to enforce quotas for women serving on boards (see Abdullah, 2014). However, Abdullah (2014) finds a negative relationship between gender diversity and company performance. In contrast, a study undertaken in Mauritius by Mahadeo et al. (2012) finds mixed results relating to board diversity (age, educational background, gender, and independence) in connection with short-term performance, and this result is different from the results of studies conducted in developed economies. Nevertheless, these studies do not explore how boardroom diversity influences CG, even though they find that family ownership has a direct impact on diversity in emerging economies.

In other words, in emerging economies, company performance seems to be negatively correlated with diversity in the boardroom. This might be because of the prevalence of family members serving on boards (Abdullah, 2014). Loukil and Yousfi (2016) find that foreign investors are unlikely to invest in Tunisian listed companies that operate a diverse boardroom. However, few studies relating to board diversity have been conducted in emerging markets, and some researchers believe that every country has a unique CG system (Solomon, 2021). Thus, it seems vital to conduct a similar study in Saudi Arabia, which is an emerging economy, and a country concerned with attracting foreign investors. Moreover, an in-depth Saudi Arabian study is needed in order to find out how a diverse boardroom might influence CG in this emerging economy (see Sarhan et al., 2019).

3.2.6 Boardroom Structure

Board composition is one of the most important corporate governance mechanisms. Rezaee (2009) explains that board composition depends on the ratio of independent to executive directors, and the number of directors hired impacts on board effectiveness. However, descriptions of board structure terms often include a dual CEO role (Duru et al., 2016), the size of the board of directors (Jensen, 1993; Lipton, 1992), one or two-tier boards (Belot et al., 2014), independent and non-executive directors (Young, 2000), and, more recently, board diversity (Cheng et al., 2017; Rao and Tilt, 2016). It could be argued that a dual CEO role and weak non-executive directors are among the main causes of corporate governance failure, for example Enron in 2001 (Solomon, 2021). Moreover, a study by Erkens et al. (2012) suggests that boards with more independent directors performed better than other boardrooms who hired fewer independent directors during the 2008 financial crisis. In this respect, and in relation to corporate failure, attention turns to the composition of the board of directors, and the board can play a vital role in preventing or reducing the risk of financial collapse.

In contrast, the one and two-tier board structures are widely used in different countries as a result of adopted laws that influence the operation of corporations. The unitary board is diffuse in Anglo-Saxon countries (e.g., in the UK, New Zealand, Australia, the US, and in Canada) and it relates to the shareholder paradigm of corporate governance (Hayes et al., 2014). At the same time, two-tier boards are determined by the stakeholder paradigm of corporate governance which is practised extensively in nations that depend on civil law (e.g., in France, Germany, Japan, Austria, Netherlands, and in Denmark) (Mallin, 2013; Jungmann, 2006). In the Middle East and North Africa (the MENA countries), around 81% of government authorities have opted to use the unitary board structure. Even in countries with more freedom of choice, such as Tunisia and Morocco, most corporate boards of listed corporations operate a unitary boardroom (OECD, 2019).

A study by Belot et al. (2014) argues that there are benefits in allowing the choice of boardroom structure to be optional, because the unitary board encourages information asymmetry, while the two-tier board structure offers greater monitoring power. The unitary board is used more often in companies that employ first-generation founders (Belot et al., 2014). This might reveal why the unitary boardroom is widely used in MENA countries, because, in these countries, there is considerable ownership concentrated in just a few jurisdictions, such as the family and the government (OECD, 2019).

The process of counselling and monitoring can illustrate the components of board composition (García Martín and Herrero, 2018), in addition to ownership (Thompson Renée et al., 2019). In this respect, there are no conclusive results between scholars about the impact of board size, independent directors, and board diversity. For example, Nguyen and Nielsen (2010) argue that an excellent service can be provided to shareholders by hiring independent directors. However, Samara and Berbegal-Mirabent (2018) contend that the appearance of independent directors might lead to a reduction in company performance; (their research involves examining collaboration and information sharing in Lebanese family businesses which operate in a collectivist cultural environment.)

Board size has sometimes been negatively associated with a company's value, and with the power to override various CG practices (Mak and Kusnadi, 2005). Some scholars argue that the optimal board size is eight directors (Jensen, 1993; Lipton, 1992). Nevertheless, Kalsie and Shrivastav (2016) argue that a larger board size is positively associated with a company's performance, from both an agency theory and a resource dependency perspective, while stewardship theory favours a smaller boardroom size. The complex operations of companies nowadays often means that firms create large boards with many independent directors, and more comprehensive diversity (García Martín and Herrero, 2018). Furthermore, a larger board is sometimes needed to cover many different operational areas, and to assert the kind of control associated with independent directors. Diversity offers advantages by affording access to a greater amount of knowledge and experience by combining the use of the most qualified directors (García Martín and Herrero, 2018). This book is about board diversity and effectiveness, and, as such, it is valuable to explore board diversity in relation to other elements such as board size, structure, and independent directors.

3.2.7 Selecting and Nominating of Board Members

The selection and nomination of board members should be informed by the mission, values and vision of an organisation as well as social needs. There is overwhelming support within existing literature for a structured, consistent board nomination policy within organisations. Pichet (2017) draws from enlightened shareholder theory to discuss the definition and nomination of independent directors in the boardroom; this article argues that the process should be governed by the value it will add to the long-term objectives of an organisation and its ability to serve the shareholders' interests. In this regard, there is a clear indication that protecting the shareholders' and business needs of an organisation should be a key determinant in this process. Ruigrok et al. (2006) reports that the nomination of board members is influenced by agency theory, resource dependence-theory and group effectiveness theory, creating a framework that aligns the nomination of board members with the goals of an organisation; also revealing that this process helps to describe the various characteristics of boardroom composition and its effectiveness. Nevertheless, serving the interests of the shareholders only would lead to judgments being made by the management team (or group of main shareholders) which might result in agency conflicts and problems (García Martín and Herrero, 2018). This scenario may lead to increasing the number of networks that do not necessarily focus on serving the interests of the company (or are dealt with in a crude way by increasing the status of friends, and, thus, harming the efficiency and diversity of the board) (Pichet, 2017).

Withers et al. (2012) observes that director selection and nomination is an important process, and is influenced by multiple factors, such as the needs of the organisation (the organisation-level) and the unique competencies of the individual (the socialised-level). Withers et al. (2012) also emphasises the value of stakeholders in the process of selecting directors. Previous studies seem to focus on economic interests rather than social benefits and good governance. However, complying with good CG in board selection might achieve both added value for the shareholders through company performance, and serve social needs in general (García Martín and Herrero, 2018).

A nomination committee (NC) plays a vital role in structuring the boardroom and enhancing its diversity (Pirzada et al., 2017). The notion of boardroom diversity has been supported in previous management studies, in order to promote diversity of character (e.g., gender, age, nationality, educational level, and background, etc.) among particular types in the boardroom, and the NC has to take difficult decisions (Randøy et al., 2006). Mans-Kemp and Viviers (2019) find that increased diversity within the NC is related to a diverse boardroom in terms of gender and race types. Moreover, an NC with gender diversity can positively affect female representation on a corporate board (Kaczmarek et al., 2012; Hutchinson et al., 2015). Also, Ruigrok et al. (2006) and Hutchinson et al. (2015) show that different nationality settings in NC are associated with diverse nationality in the boardroom. In contrast, Ruigrok et al. (2006) find no relationship between NC in terms of gender and educational diversity, and diversity in the boardroom relating to these types. In a study of developing economies such as Ghana, Appiah et al. (2016) find that gender diversity in the boardroom is not associated with NC. Therefore, previous research is inconclusive, and places little emphasis on restrictions relating to board diversity effectiveness.

An effective NC may work to provide checks and balances on the value and advantages of diversity to form a suitable mixture of new board members who can offer relevant information, while maintaining adequate homogeneity for making efficient decisions (Randøy et al., 2006). In this regard, knowing the barriers that prevent diversity in the boardroom, which arise from different stakeholders, may help to address these issues, and so boost board diversity effectiveness. The ultimate purpose of the NC is to ensure the selection of competent, adequate candidate directors from a diverse range of backgrounds so as to enhance board effectiveness (Kaczmarek and Nyuur, 2016; Eminet and Guedri, 2010; Walther and Morner, 2014).

3.2.8 Ownership

Said et al. (2019) notes that ownership structure comprises two important dimensions; ownership concentration and ownership type. Ownership concentration is quantitative information which refers to the number of shares held by investors, while ownership type focuses on qualitative information about the identity of the shareholders (Said et al., 2019). These different dimensions mean that ownership influences can vary across different settings. For instance, in China and India, Saeed et al. (2017) find a negative relationship between a concentrated ownership structure (family and government) and both gender diversity and independent directors, but a positive relationship with women independent directors, when the firm operates internationally. Ownership structure can be a potential source of challenges or opportunities within an organisation (Said et al., 2019). For example, Gyapong et al. (2019) suggest that gender diversity diminishes dividend payments, while this relationship rises with a growing concentration of ownership structure. Meanwhile, Ben-Amar et al. (2013) argue that boardroom diversity leads to independent boards, but not under all types of ownership structure.

Some studies note that ownership structure increases boardroom diversity. For instance, Vieira (2018) shows that a concentration of family ownership is related to a low number of independent directors, but higher gender diversity and positive performance; the study suggests that the presence of women directors, as well as leverage, and size of family ownership can boost company outcomes at times of economic difficulty. At the same time, other studies find that ownership influences the function of diversity. Ozdemir (2020) finds that, although board diversity is associated with company performance, the level of this relationship is contingent upon the degree of institutional ownership; this study shows how, in a tourism company, a decrease in the level of institutional ownership positively impacts the association between diversity and performance. Ozdemir (2020) suggests that board diversity, as an internal CG mechanism, is essential when the external CG mechanism (institutional ownership) is low. Another example, Thompson Renée et al. (2019), finds that, although board members feel that they might perform their duties effectively under governance ownership, other respondents thought the opposite; the participants revealed that companies under government ownership experience issues such as long board meetings, inadequate training, issues relating to hiring new directors, weak disclosure, and low accountability and transparency. The results are inconclusive regarding the impact of ownership structure on boardroom diversity.

Because this book focuses on Saudi Arabia, it is important to consider how firm ownership plays a role in emerging economies, especially where there is a high proportion of state ownership. Said et al. (2019) reports that the majority of listed firms in the MENA region are dominated by companies with government majority shareholding, and, as such, the influence of foreigners on organisational performance is limited. However, the participation of governments means that these firms benefit from policies that are more aligned to their needs. However, conversely, foreign-owned firms have access to diverse perspectives and resources, which can enhance their competitiveness in the host country (Kobeissi and Sun, 2010). In GCC countries, Abdallah and Ismail (2017) find that the association with good CG and company performance increases when the firm has dispersed ownership, rather than concentrated ownership (i.e., state ownership and local company ownership). Al-Bassam et al. (2018) find that, in Saudi Arabia, CG disclosure diminishes significantly in companies with increasing ownership structure. Furthermore, a study by Al-Janadi et al. (2016) shows a negative relationship between state ownership and governance effectiveness in Saudi listed companies. This shows that the effect of ownership is important and needs to be studied (see Piesse et al., 2012), as it may increase or diminish board diversity and its effectiveness.

3.2.9 The Chairperson

Separating the role of a board chairperson from that of a chief executive officer has been extensively studied (see Pucheta-Martínez and Gallego-Álvarez, 2019; Sarhan and Ntim, 2019; Arayssi et al., 2020; Piesse et al., 2012). However, the number of dual roles has decreased over time in certain countries and has been abolished from practice by CG law in other countries. For example, according to Spencer Stuart (2019a), the separation of the dual role in US S&P 500 boardrooms has decreased by 29% over the previous decade while, in the UK, in the top 150 FTSE boardrooms, the number decreased from 3.3% to 0%. In Saudi Arabia, Piesse et al. (2012) show that 44.6% of the study sample companies had a combined Chairperson/CEO. However, the new CG code of 2017 has adopted a law to segregate the roles of Chairperson and CEO.[11]

Piesse et al. (2012) explains how chairpersons in Saudi Arabia and Egypt have the ability to enforce ideas upon other directors, with full power to control and override decisions made in the boardroom. Furthermore, the role of a chairperson in the aforementioned countries is commonly occupied by individuals who are older (Piesse et al., 2012). Nevertheless, the new CG code highlights that no individual should be able to make decisions through absolute rule.[12] This indicates that the new CG code encourages collective decisions to be made by all directors. Kakabadse and Kakabadse (2007) finds that the function of the chairperson of a board of directors in an organisation shapes group dynamics, roles played, contributions for backing, and oversight administration; the study concludes that a chairperson holds considerable authority and influence over the decision-making within an organisation, but it might be better to have a diverse group controlled by a chairperson to improve decision-making within boardroom. Sarhan and Ntim (2019) suggest that managers and companies in the MENA region should enhance CG quality in order to align themselves with best practices by having greater diversity in the boardroom.

In this book, the chairperson is identified as an individual who can manage diversity in the boardroom. In this context, a study by Kakabadse et al. (2015) confirms the importance of the chairperson's role in promoting board diversity, and in hiring and assessing directors and their responsibilities using governance considerations. Also, Kanadlı et al. (2020) suggest that the leadership ability of the chairperson involves moderating the positive relationship between jobs connected to a diverse boardroom and strategic role performance. Kanadlı et al. (2018) find that, when a chairperson acts with open-mindedness within a boardroom environment, this boosts the contribution from minority women. In this book, the chairperson is considered as vital for increasing and managing diversity in the boardroom. Finally, a chairperson has the ability to balance the boardroom by employing well qualified directors (Nahum and Carmeli, 2020).

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12 Chapter 2 – Article 24 (d) Saudi's Corporate Governance Code 2017

3.3 Boardroom Diversity

3.3.1 Definitions and Background

There is no definitive consensus about what board diversity actually means, and this includes categories and types of board diversity (Rose, 2007). Kang et al. (2007) define board diversity as the "mixture of board members" as categorised into observable elements (e.g., gender, age, nationality, and ethnicity) and non-observable elements (e.g., education, functional skills, and experience). Milliken and Martins (1996) suggest that diversity among board members can be categorised according to gender, age, ethnicity, culture, religion, constituency representation, independence, professional background, knowledge, practical experience, and life experience. Moreover, one highly cited definition by Walt and Ingley (2003) talks about a mixed compound of board members' attributes, features and know-how and how these attributes might affect decision making and the boardroom process.

Ben-Amar et al. (2013) define diversity in terms of the kinds of people assigned into specific groups to do specific jobs (i.e., board members etc.). Ben-Amar et al. (2013) also define diversity as the extent one can measure individual demographics such as gender, nationality, culture and experience. Also, demographic diversity can be used to define different experiences, sensitivities, and perspectives (Krawiec et al., 2013). Diversity can also be referred to as "heterogeneous" (as noted by Mahadeo et al., 2012; Kang et al., 2007; Milliken and Martins, 1996). Inversely, elements of non-diversity can be described as "homogeneous". Although extensive research has been carried out into diversity, no single definition or categories have been universally agreed between scholars. Furthermore, no agreement has been reached about the effect and impact of diversity in the boardroom. Therefore, the definition used by Kang et al. (2007) is most suitable for use in the context of this current study. Moreover, this study will concentrate on three observable characteristics of board members, namely, gender, age, and nationality, and three non-observable elements, namely, education background, qualification level, and expertise.

A considerable amount of literature has been published on the impact or effects of boardroom diversity on a firm's performance as well as other aspects of business life such as CSR, remuneration, risk management, board performance, employee productivity, ownership, and mergers and acquisitions (Milliken and Martins, 1996; Carter et al., 2003; Adams and Ferreira, 2009; Ben-Amar et al., 2013; Abdullah, 2014; Kakabadse et al., 2015; Chen et al., 2016; Gordini and Rancati, 2017; Sarhan et al., 2019; Issa and Fang, 2019). There are many beneficial aspects of boardroom diversity for members of the board and the firm. For instance, enhancing creative skills, innovation, and the efficient solving of problems, as well as an increased ability to comprehend the market (Carter et al., 2003). Alexander (2016) shows that firms can increase their performance by operating gender diversity in the boardroom, particularly in social industries and healthcare, where diversity appears to serve a special case that includes social aspects as well as financial. By way of illustration, Kakabadse et al. (2015) argue that the non-financial merits of boardroom diversity are legitimate and can help to improve the image of a firm among its stakeholders, and provide other benefits such as enhanced decision making, and the use of all available skills and resources. As discussed in the section above (on CG) the balance between different stakeholder needs in relation to board decision making is important, thus, understanding the role of diversity in this context adds value to this study.

Terjesen et al. (2015) argue that gender diversity is a business robust benefit, and females can be depended on to produce future resource benefits for the firm, rather than boardroom benefits only. Furthermore, the benefits of female representation in companies that are involved with products consumed by women can be substantial. Moreover, boardroom diversity benefits shareholders by boosting corporate monitoring and helping to resolve conflicts. All these benefits can result in improved manager and shareholder satisfaction (Byoun et al., 2016). Overall, these examples support the view that board diversity enhances the monitoring of the board (Hillman and Dalziel, 2003; Alexander, 2016), while others argue that diversity supports independence, quality control, and transparency (Carter et al., 2007; Terjesen et al., 2015).

Despite the fact that the majority of research comes out to support the benefits of diversity, some research shows that diversity in the boardroom may have some drawbacks, or it might not work to influence expected benefits. A study by Mahadeo et al. (2012) finds that firms that have homogeneity of age in the boardroom develop more effective connections than boards that represent heterogeneity. Homogeneity of age can provide benefits to the firm in terms of how well objectives are understood and communicated, as well as in communicating values, and this works in favour of good firm performance. This might reveal existing reasons as to why or why not boardrooms should increase diversity to correspond with their societies' business needs (Rose, 2007).

Other studies that examine gender diversity in relation to ownership structure find a positive relationship between the two. However, Nekhili and Gatfaoui (2013) show that a mandatory quota of women can impact boardroom performance negatively, mainly because the board's focus is placed on meeting quotas rather than on hiring people based on relevant skills and experience. Also, obligatory quotas for increasing gender diversity in the boardroom might not work to achieve other aims such as: board independence, refreshing old board norms and practices, and enhancing different opinions or views in the boardroom (Gregorič et al., 2017). Sometimes more importance is placed on filling gaps to ensure female representation rather than electing the most qualified females or persons. In addition, this focused approach might decrease the attention paid to promoting other types of diversity in the boardroom. Chapple and Humphrey (2014) report that gender diversity does not play a role in solving agency cost problems. Therefore, it seems that there are challenges when considering board diversity, and all issues cannot be generalised across regions.

3.3.2 Functional Diversity

The functional characteristics of the board of directors comprise non-observable elements, such as experience, educational background, and educational level. These elements are explored in more detail below.

3.3.2.1 Diversity of Experience

Only a few studies have been undertaken about the effects of director experience on corporate boardrooms (Gray and Nowland, 2017). A study by Kroll et al. (2008) describes board member expertise based on the number of prior years that directors have been working as executives or directors in the same sector. A study by Certo et al. (2001) discusses board member experience based on the number of directorships that directors have held. According to Gray and Nowland (2013) shareholders appreciate directors who have held previous directorships; this study finds that the Australian market reacts positively to the appointment of directors who have four or more years of experience, and who have already held two or more board memberships with listed companies, in contrast to directors with less experience. However, Thorsell and Isaksson (2014) note how earlier studies suggest that tenure and interlocking are appropriate measures to use. Nevertheless, in the long-term after IPO, this is not necessarily the case, since the previous experience of directors is less relevant, especially when it comes to operating in different institutional contexts.

Some scholars link the age of a director with their experience, in that it is perceived that older directors have gained more experience over time (Bodnaruk et al., 2008; Kang et al., 2007). However, limiting the definition of experience to something that is related to age could prevent diversity of both age and gender, and might serve to ignore good candidates that have not had the privilege of previous board tenure experience. Pitt-Catsouphes et al. (2013) suggests that the development of technology and the social shifts that have taken place in recent years means that different generations now offer a variety of different beliefs, values, and work experience. In this context, education and training might work to fill gaps in experience for women and younger directors (Kakabadse et al., 2015). Creary et al. (2019) argue that the skills and competences of directors should be taken in to account as factors in addition to demographic elements. For example, younger candidates with excellent IT experience might not usually be offered a position in the boardroom due to perceptions about age and experience.

A study by Noor et al. (2016) examines the essential role of ICT experience in enabling board members to make investments in IT; this study demonstrates the importance of functional experience in shaping company performance. Furthermore, Kabongo and Okpara (2019) find that diversity of experience on the boards of the African banks helps to speed-up the shift towards entering into foreign markets compared with the non-diverse boardroom. This indicates that diversity of experience might not only depend on age or years of experience; it can be more comprehensive than that, and diverse experience can enhance board effectiveness.

The value of experience held by directors is viewed differently across various theories. For example, in agency theory, it is deemed that director experience contributes to a greater degree of monitoring and to the effective counselling of executive management (Hillman and Dalziel, 2003). In resource dependence theory, the experience of the director is an essential resource that can offer competing services that might be difficult to repeat (Crook et al., 2011). Differences have also been observed across nations. For instance, in the US, a study by Chen et al. (2020) explains that after US Congress announced new trading relationships with China (in 2000), companies who hired external directors with a Chinese background, and were involved in investment with Chinese companies, obtained greater profits, and this impacted US share values.

In Saudi Arabia, Alshareef and Sandhu (2015) reveal that diversity in terms of industry and multi-industry experience contributes to board effectiveness in many ways, including: improved communication between directors on the same board, speeding up development, improving strategy, avoiding risk, creating greater opportunity chances, gaining industry know-how, and creating faster access to relevant networks. In contrast, Nielsen and Nielsen (2013) note that both sector and international experience has no significant effect on decisions made and performance. Nevertheless, Kroll et al. (2008) suggests that boardrooms that employ relevant director experience gain positively from effectiveness, in contrast to boardrooms that appoint vigilant directors without suitable knowledge. Thus, it is essential to hire the most appropriate experience from the stakeholders' perspective, and employing diversity on the board of directors can increase and boost effectiveness in this way.

3.3.2.2 Diversity of Educational Background

Educational background has been defined in multiple ways in previous studies about boardroom composition. For example, studies by Mahadeo et al. (2012), Rose (2007), and Ooi et al. (2015) seek to determine and measure educational background according to subject specialisation (e.g., engineering, business management, and accounting etc.). Studies by Harjoto Maretno et al. (2019), Bernile et al. (2018), and Moser and Shabanaj (2019) measure and define educational background according to educational attainment level (i.e., holding a bachelor's degree, a master's degree, or a doctorate etc.). Others such as Bond et al. (2010), and Chen et al. (2008) define and measure background according to the educational establishment attended by the director, i.e., where the director obtained their education. This has led to variations in findings, especially relating to diversity in the boardroom and how this contributes to board effectiveness, as well in relation to different types of diversity. For instance, a director with a postgraduate or high-level of education could expect to have more cognitive ability and might process decisions using reasoning and objectives that take into account all stakeholders and social aspects (Zhi-hua, 2010). However, Rose (2007) suggests that corporate board work does not require any special education.

Educational background is often required implicitly in some CG codes as a requirement for specific committees (e.g., an audit committee). However, for some posts, educational level does not appear to be a requirement, even implicitly. Therefore, this book treats educational background in terms of how it relates to a subject or to a specialism, and educational level in terms of the standard of educational attainment that directors hold. This allows the researcher to identify different contributions to help identify its impact.

Previous studies reveal mixed results in relation to how a director's educational background influences diversity and company performance. For example, Rose (2007) finds no link between educational background, diversity, and Tobin's Q. Mahadeo et al. (2012) finds a negative association between educational background, diversity, and ROA, and Kim and Lim (2010) reveal that educational background can have a positive impact on a company's value. However, Ooi et al. (2015) suggest that adopting greater diversity when it comes to educational background within the boardroom could worsen company performance in the time of crisis. Furthermore, Smith et al. (1994) note that due to the complexity of decision making undertaken by top level management, diversity of educational background can improve boardroom effectiveness. Also, Naranjo-Gil (2009) reveals that younger directors who have a financial background and more limited tenure experience tend to use more innovative administrative and accounting tools. Similarly, in a study of Greek hotel management, Pavlatos (2012) notes a relationship between the CFO with a business background and the application extensive cost-management systems. Sarhan et al. (2019) looks at different types of diversity and recommends further study into educational background.

3.3.2.3 Diversity of Educational Level

Previous studies have considered education level as another form of cognitive knowledge that might contribute to boardroom effectiveness. Wally and Baum (1994) find that the more years of education gained by an executive then the greater the impact the director has on comprehensive decision-making strategies. This finding relates to cognitive complexity and the ability to assimilate new opinions and allow innovation. In the US, education level is found to be positively associated with a company's social performance (Harjoto Maretno et al., 2019). In contrast, Zhi-hua (2010) finds that education level is significantly negatively associated with a company's social performance among the top management team. The politics of argumentation might vary from one boardroom to another or from one culture to another. In this respect, Simons (1995) suggests that diversity of education level among top management is beneficial, particularly if this contributes towards the group undertaking open-minded discussion, which leads to variety, debate and teamwork. However, this could also be barrier to diversity as well as a benefit, depending on how dynamic works in the boardroom.

Another barrier to the diversity of education levels in the boardroom relates to ownership structures. In France, Nekhili and Gatfaoui (2013) show that employing highly educated women in the boardroom is negatively associated with family ownership, and that family-owned firms tend to hire women with family connections regardless of their qualifications. This trend might also exist because of policies that are in place to increase the number of women in boardrooms, and companies tend to fill these quota positions with females they know rather looking outside of their families and networks for those women who are most qualified (Adams and Kirchmaier, 2015). This reveals an embedded agenda and adherence to norms regardless of any external governance regime (Ilhan-Nas et al., 2018). Therefore, educational level only sometimes applies to proper selection for the boardroom.

Mixed results can be found in studies that explore the effects of educational levels on company outcomes. In the US, Cannella et al. (2008) finds both positive and negative associations. In Malaysia, Adnan et al. (2016) finds that boardrooms are not diverse in terms of educational levels, especially those companies linked to state ownership. In New Zealand, Bathula (2008) finds that the appearance of a PhD qualification among directors is negatively associated with company performance. In contrast, Wincent et al. (2010) suggest that a diversity of educational levels in the boardroom enhances innovative performance. Furthermore, in Jordan, Makhlouf et al. (2018) finds that a diversity of educational levels positively correlates to the quality of reporting (e.g., accounting conservatism). In Indonesia, Darmadi (2013) finds that directors who have obtained a high level of education, especially from prestigious educational institutions, positively correlates with ROA and Tobin's Q. Also, in Saudi Arabia, a multi-case study by Alshareef and Sandhu (2015), which investigates boardroom diversity and corporate social responsibility (CSR), finds only one case where diversity of educational levels enhanced CSR, while no other cases were supported. All this indicates inconsistencies among previous studies which might need to be addressed.

There is a body of research which explores the quality of education gained and the influence of educational institutions, and how these elements contribute towards boardroom effectiveness. For example, Kabongo and Okpara (2019) find that companies which expand into global businesses faster, have a board of directors that possess high-level qualifications from overseas managements schools based in the US, the UK, and in Africa. Furthermore, Johnson et al. (2013) suggests that directors with a specific demographical education hold social capital which might benefit firms. For example, in China, during the period from 2010–2011 there was an increase of 2% in the number of females who took the Graduate Management Admission Test (GMAT), among those women who were seeking to undertake a post-graduate education at a prestigious US school, with the ultimate objective of gaining leadership positions in Chinese corporations (Hastings, 2013). Furthermore, Darmadi (2013) suggests that companies with CEOs who hold a degree from a prestigious school enjoy greater profitability compared to their companions. However, Darmadi (2013) also finds only a marginally significant effect on ROA in companies that have a Board of Commissioners (a two-tier board system).

Overall, further research needs to be undertaken in this area to gain insight into the context and to investigate the impact of different elements on companies' outcomes. Also, understanding stakeholder perspectives on how educational background and education level influences opinions might be important.

3.3.3 Demographic Diversity

The demographic characteristics of board members relate to observable elements such as age, gender, and nationality. These elements will be explored in more detail below.

3.3.3.1 Age Diversity

There are a limited number of studies (all revealing inconclusive results) about age diversity in the boardroom and how this impacts on company financial performance (Ferrero-Ferrero et al., 2015). For example, some studies find that age diversity is associated with a positive impact on financial performance, especially in US companies (Choi and Rainey, 2010), and in European companies (Ferrero-Ferrero et al., 2015). Similarly, in Indonesian listed companies, Darmadi (2011) finds that when the board includes younger directors, this impacts on company performance positively. However, in contrast, some studies find that age diversity is negatively associated with company performance (Kunze et al., 2011; Ali et al., 2014; Eulerich et al., 2014; Diepen, 2015; Shehata et al., 2017). Interestingly, Tanikawa et al. (2017) finds that the presence of older directors only moderately lowers the negative correlation between top management, age diversity, and ROE. Therefore, inconsistencies exist between previous studies about age diversity. Nevertheless, Mahadeo et al. (2012) favours the positive impact of age diversity as a factor that relates to other independent variables, even though their study questions whether age diversity on boards is actually workable.

There is some evidence to suggest that boardrooms, on the whole, are dominated by older male directors. For example, Carter et al. (2003) reveals that the average age of a director serving in a boardroom in 797 Fortune 1000 firms is 59 years of age. In Australia, Kang et al. (2007) also state that in 78% of listed companies a director's average age is between 51 and 70 years, and, furthermore, former managers can capitalise during their retirement when they are retained to sit on different company boards. In Malaysia, Abdullah and Ku Ismail (2013) report that the average age of a board member is 58 years. Furthermore, Mahadeo et al. (2012) finds that in Mauritius the average age of a director is between 46 and 65 years of age in 63.14% of board seats.

According to Kunze et al. (2011) a lack of age diversity in companies appears to be linked to a climate of discrimination that influences overall company performance negatively, due to the impact of personal commitment. On the other hand, older directors could have more experience than their counterpart younger directors (Mudambi and Treichel, 2005). Houle (1990) stresses that a mixed board composition might ensure the more effective distribution of tasks, because older directors can provide more experience and financial networking support. For example, middle-aged directors might engage more with the administrative duties and younger directors might engage with self-training and expanding their expertise. A study by Mahadeo et al. (2012) adds that younger directors in the boardroom provide the board with bright ideas, but Child (1974) explains that some older managers might have difficulties in accepting new insights and in making organisational shifts.

From a psychological point of view, sometimes, older directors might be more rigid, focused on the short term, and be resistant to organisational shifts, in comparison with their younger counterparts (Kunze et al., 2013). According to Zhi-hua (2010), older directors adopt more conventional ideas which are more risk-averse, and they obey regulations and routines more than younger directors. Thus, clearer insights are needed to learn how age diversity can contribute to the effectiveness of the boardroom (see Sarhan et al., 2019).

3.3.3.2 Gender Diversity

Research conducted by EIRIS which reviewed more than 1,600 companies listed on the FTSE All-World Development Index in 24 developed economies, finds that female board representation comprises just 7.1% (Maier, 2005). Due to this figure, gender diversity is a controversial topic, which has led to an increase in research about corporate governance and work ethics (Mateos de Cabo et al., 2012). According to Terjesen et al. (2009), female representation has risen on corporate boards because of the adoption of policies designed to recruit women, but increasing female representation remains a slow process. A recent study by Tyrowicz et al. (2020) sampled more than 20 million companies in 41 European countries, comprising both developed and developing economies, to find that almost 70% of companies work without women serving on supervisory boards, and 60% have no women in the boardroom. Similarly, in MENA countries, the representation of women in boardrooms remains weak and no regulations are in place to remedy this situation (OECD, 2019; Abdelzaher and Abdelzaher, 2019; Sarhan et al., 2019; Issa and Fang, 2019). This shows that there is a need for the further in-depth investigation of female participation in these countries.

Previous studies are inconclusive about the relationship between gender diversity and company performance (Abdelzaher and Abdelzaher, 2019). For example, Carter et al. (2003) finds a significant positive relationship between women in the boardroom, company value, and Tobin's Q. Indeed, Pucheta-Martínez and Gallego-Álvarez (2019) suggest that female representation on corporate boards is positively associated with company performance. Moreover, Erhardt et al. (2003) offer evidence of a positive relationship between gender diversity and company performance, by estimating ROA and ROI. In contrast, Carter et al. (2010) and Rose (2007) find no statistical evidence to support the relationship between female representation in boardrooms and company performance. Furthermore, a recent study undertaken in Bahrain by Jafaar et al. (2019) finds that female representation is negatively associated with company performance. Therefore, previous research does not offer a conclusive understanding of this issue, neither does it identify the boundaries of gender diversity in boardrooms.

Farrell and Hersch (2005) fail to find a clear indication that female representation equals a value improving strategy, but it might help a company respond to internal and external pressures to hire a board which reflects society at large. This evidence is supported by Hillman et al. (2007), who reveal that companies which adopt more gender diversity in the boardroom are considered more legitimate in terms of CG best practice. Also, Bilimoria (2006) finds that gender diversity in the boardroom might indicate a company's willingness to increase female representation in lower positions. The rising trend of female participation in the boardroom might add financial benefits and meet non-financial objectives (Liao et al., 2015). In the boardroom, females might contribute different points of view and beliefs from those of their male counterparts (see Pelled et al., 1999; and Hillman et al., 2007). In addition, Liao et al. (2015) argues that males and females differ both socially and culturally, and so can offer different perspectives in terms of character, education, experience, and display different communication behaviour. Moreover, the variety of opinions of both males and females might benefit a company when a business sells products and services designed to target either men or women (for example females might have better insight into female consumers) (see Sweetman, 1996; Singh and Vinnicombe, 2004). Therefore, it is important to explore increasing the number of women serving on boards.

3.3.3.3 Diversity of Nationality

A study by Maturo et al. (2019) which reviews previous research undertaken about board diversity and nationality, concludes that most studies use different theories and methods, some of which point to a negative correlation between nationality and diversity. However, most studies generally support the value of diversity of nationality, and some find a positive association between diversity of nationality and company performance (Ujunwa, 2012; Ararat et al., 2015; Estélyi and Nisar, 2016; Sarhan et al., 2019). In contrast, no significant associations are found by Randøy et al. (2006) and Darmadi (2011), but negative associations are reported by Eulerich et al. (2014), Khan and Abdul Subhan (2019), and Diepen (2015). For instance, in emerging economies such as Pakistan, a negative association between diversity of nationality in the boardroom and performance is noted due to variances in cultural outlook and language communication obstacles (Khan and Abdul Subhan, 2019). In nine Middle Eastern countries, including in Saudi Arabia, a study by Salloum et al. (2019) shows that although there is a positive influence linked to diversity of nationality in relation to gender and ethnicity on company performance, this is in the minority of cases, and often leads to reduced performance. This is because there is often a clash between global and local agendas among individuals, there are problems associated with perceptions of legitimacy, and the appointment of foreign directors for global PR reasons rather than because they are crucial for the boardroom (Salloum et al., 2019). Van Veen and Elbertsen (2008) note that international business sometimes imposes practices that clash with those adopted at a national level, especially multi-national companies. On the other hand, Estélyi and Nisar (2016) observe that active shareholders perform an essential function in influencing the adoption of a diverse boardroom. However, Maturo et al. (2017) indicate that institutional shareholders do not usually influence diversity of nationality in the boardroom. This research shows differences between developed and developing countries in relation to the impact of the effectiveness of diversity of nationality, and reveals the motives that drive this kind of diversity in boardrooms, i.e., the influence of institutional shareholders, active investors, or foreign shareholders.

Other studies draw positive indications about diversity of nationality, suggesting that it promotes social and financial benefits. For example, Estélyi and Nisar (2016) find a positive association between diversity of nationality in the boardroom, shareholder diversity, and global company operations. In Jordan, Makhlouf et al. (2018) reveals that board diversity, which includes diversity of nationality, is positively associated with conservative accounting practices. Harjoto Maretno et al. (2019) suggest that the enhancement of the diversity of nationality in the boardroom advances corporate social responsibility. Furthermore, Fernandez Whitney and Thams (2019) reveal that board diversity which includes diversity of nationality can lead to more efficient management for stakeholders, because the combined experience of the directors controls connections between diversity of nationality and gender, as well as connections with stakeholders. In the MENA countries, including in Saudi Arabia, Sarhan et al. (2019) finds a positive relationship between diversity of nationality in the boardroom and company performance, but they suggest that future research is needed to gain in-depth understanding in this area.

3.4 Boardroom Effectiveness and Diversity

Empirical studies have examined boardroom effectiveness from different perspectives, including the roles of board members and of the board itself such as: monitoring, independence, assessed risk management/internal control, and decision making. However, these studies focus on one or two aspects of board effectiveness as a mediator to company performance. For example, Rocio et al. (2020) narrows down the direction to board operational and decision-making processes and how they work as a tool of board effectiveness and company performance. This book evaluates stakeholders' perceptions on how boardroom diversity influences effectiveness, and the contributions of diversity on different effectiveness mechanisms. This is done in order to understand perceptions about increasing diversity in the boardroom. According to Nordberg and Booth (2019), understanding how boardroom composition contributes to effectiveness considerations is essential to draw the agenda for corporate governance research and policy making. Achieving good CG helps to protect the interests of shareholders and stakeholders and works to uphold the social responsibilities of businesses (see Solomon, 2021). The following sections will review mechanisms of effectiveness in relation to boardroom diversity.

3.4.1 Monitoring versus Independence

Monitoring is one of the most important functions that can be improved by boardroom diversity, and this point has been outlined in previous research. Byoun et al. (2016) suggest that boardroom diversity is more effective than homogeneity, and that diversity can help enhance monitoring and reduce agency problems that might result between management and shareholders. Particularly, Lucas-Pérez et al. (2015) note that gender diversity enables the monitoring of unsuitable compositions, functioning, structures, and size. For instance, Loukil and Yousfi (2016) suggest that a boardroom with a large number of members and more women members can increase effectiveness.

Diversity can enhance boardroom effectiveness by influencing monitoring practices in the boardroom. For instance, Srinidhi et al. (2011) suggest that the quality of earnings rises for companies that have a diverse boardroom. In addition, Byoun et al. (2016) finds that firms that operate diversity in the boardroom pay more dividends than firms which support non-diverse boards. Also, preventing free cash flow problems can solve agency conflicts and benefit shareholders.

Information asymmetry is another agency problem that can be reduced by applying diversity. For example, Abad et al. (2017) shows that women serving on boards worked to decrease levels of information asymmetry in firms listed on the Spanish stock market. Furthermore, Upadhyay and Zeng (2014) suggest that boardroom diversity relates to a motivation to boost the image of the company, and that increased monitoring increases the transparency of the information environment. In the same way, Alshareef and Sandhu (2015) suggest that board diversity is an important tool for enhancing the effectiveness of different functions, such as monitoring, strategic and service functions, and CSR in corporate governance.

The independence of the boardroom can, indirectly, enhance performance and boost monitoring functions (Fama and Jensen, 1983; John and Senbet, 1998). Indeed, boardroom diversity can contribute to the effectiveness of the boardroom and this function has been noted by previous researchers. For example, Terjesen et al. (2016) find that women directors boost boardroom effectiveness, as well as board independence, which gives a true signal of the effectiveness of a board. Indeed, Fields and Keys

(2003) find that outside directors often enhance the monitoring of management, and this improves boardroom effectiveness. Also, women serving on a board of directors can enhance board independence (Abdullah, 2014).

A study by Ben-Amar et al. (2013) suggests that board diversity might not guarantee the independence of the board across different ownership structures. Indeed, Nekhili and Gatfaoui (2013) provide strong evidence taken from France that family ownership, company and board size all influence the appointment of women to a board of directors. Similarly, in emerging economies such as Malaysia, Abdullah (2014) finds that women are elected to the boardroom by means of a family connection, rather than due to business needs. However, it seems that diversity can boost two aspects of boardroom effectiveness: monitoring and independence. However, failure to achieve board independence might impact the monitoring scheme as a consequence. Ntim (2015) suggests that ethnic and gender diversity can enhance boardroom effectiveness by improving independence and executive monitoring. Therefore, it is important to understand how diversity can impact different aspects of the boardroom.

Adams and Ferreira (2009) link boardroom diversity with greater CEO turnover, and more sensitivity to performance. However, the effectiveness of a diverse boardroom is reduced when board members are of the same ethnicity as the CEO (Byoun et al., 2016). Indeed, Campbell and Mínguez-Vera (2008) argue that boardroom effectiveness is, essentially, the monitoring of executive management performance based on different elements relating to board members, such as: qualifications, experience, participation in directorships for other firms, levels of ownership, and any compensation system used. In other words, they argue that the characteristics of the members of a board can result in enhancing or hindering the role of the monitoring scheme. Thus, different types of diversity can influence boardroom effectiveness including aspects that have not been explored by previous researchers.

3.4.2 Decision Making versus Conflict between Diverse Members

As noted previously, the effectiveness of decision making is another way of determining the effectiveness of a diverse boardroom. For instance, gender diversity in the boardroom promotes the contribution of diverse knowledge and skills, which is needed to fulfil different criteria in the decision-making process (Lucas-Pérez et al., 2015; Zelechowski and Bilimoria, 2004; Nielsen and Huse, 2010). Ntim (2015) suggests that ethnic and gender diversity can boost decision making, as well as helping firms to link to their external environment in order to obtain resources. Similarly, Anderson et al. (2011) points out that boardroom diversity inspires different points of view in relation to executive activities and this can benefit shareholders due to the presence of greater monitoring. The role of the board is to represent shareholders' beneficial decisions, and, thus, it is important to look at decision making when determining the effectiveness of the boardroom.

Jiraporn et al. (2009) argue that the effectiveness of the board is achieved by its committees, and this view is consistent with that of Kesner (1988) who points out that committee level is the starting point of most of the important decisions that take place in the boardroom. Naturally, decision making by different group members, such as boardroom members, can lead to more discussion. Indeed, Gul et al. (2011) state that diversity in the boardroom contributes to more reporting and the enhanced disclosure of firm wide and board discussions. According to Lucas-Pérez et al. (2015) gender diversity not only enhances boardroom equality but also initiates diverse decision making. Coffey and Wang (1998) argue that women can improve the decision-making process because they are considered less self-interest oriented. This indicates that different diversity types have different contributions to make in the decision-making process.

Different diversity types might produce some conflict across different dimensions. In this context, Hambrick et al. (1996) suggest that team homogeneity is better for speeding-up the decision-making process, because a heterogeneous team may produce more disagreements. This indicates that a diverse boardroom composition might not always lead to boardroom effectiveness. In contrast, Carter et al. (2003) suggest that a diverse boardroom provides more understanding of the marketplace, and enhances creativity and innovation, problem-solving, and the effectiveness of corporate leadership. Therefore, elements that might enhance effectiveness in the boardroom might also initiate conflict in the decision-making process, resulting from different ideological perspectives; different types of diversity (such as gender, age, education, experience, and nationality) might give rise to conflict relating to decision making.

A chairperson is the person who has the power to influence the boardroom, so that it can become effective, by involving other members in the selection process, as well as in other aspects of boardroom decision making. For example, in order for females to contribute to the board effectively, a chairperson must play a vital role in involving them rather than ignoring their input (Kakabadse et al., 2015). Thus, it is vital to consider how boardroom diversity can be dissected and managed.

3.4.3 Risk Management and Internal Controls

The failure of risk management processes was one of the major causes of the global financial crisis of 2008/9. As a result, corporate governance now plays a vital role in a firm's survival, and it should not be ignored. According to Lucas-Pérez et al. (2015) introducing gender diversity into board composition is the first step towards reforming and recovering business reputation, after a previous financial crisis. Davies and Hopt (2013) state that the recent financial crisis proves that shareholders do not have any control over impetuous board actions. Therefore, risk management systems and internal controls need to be in place in the boardroom as part of an ongoing examination of a system's validity and fitness for the future. Internal controls are set up and enforced by management in most cases, and risk is assessed in the boardroom using a special committee or an audit committee. The financial crisis of 2008/9 highlighted the importance of board composition in the corporate governance process, and the need for change, in order to improve board effectiveness (see Ferrero-Ferrero et al., 2015). An effective board can evaluate if management is aware of risks, and it can put in place internal controls, evaluation needs, expertise, or qualified members in order to identify issues properly.

A study by Chen et al. (2016) shows that gender diversity can enhance boardroom effectiveness. Particularly, it enhances risk management as well as R&D investment. In contrast, Loukil and Yousfi (2016) find that gender diversity does not impact on total risk, R&D investment, growth, or the opportunity for investment. However, they argue that women board members improve board independence and, hence, prevent firms from taking more risk. Due to these inconsistent results, it is important to explore how boardroom diversity and different types of diversity can impact on risk management and internal controls (see Chen et al., 2016).

3.4.4 Boardroom Diversity and Performance

Many scholars put forward different arguments about board diversity as it relates to the performance of the board. Overall, their results in this area are inconclusive. One important indicator used to measure how much benefit is gained from boardroom diversity is the performance of the firm. Most studies that have been undertaken in this context use quantitative methods to test performance related boardroom diversity. Some researchers find a positive impact on a firm's performance (Lucas-Pérez et al., 2015; Campbell and Mínguez-Vera, 2008; Carter et al., 2003; Terjesen et al., 2016; Ferrero-Ferrero et al., 2015; Gordini and Rancati, 2017). In contrast, others find no significant relationship between boardroom diversity and company performance (Rose, 2007; Mahadeo et al., 2012; Carter et al., 2010; Gallego-Álvares et al., 2010). The inconsistency of previous quantitative research led me to explore boardroom diversity and effectiveness.

The relationship between a firm's performance and/or its value in relation to boardroom diversity is examined using different tools of measurement by different scholars. These various methods are used to investigate the impact of diversity from various angles. Accordingly, researchers use different types of diversity, such as age, gender, educational qualifications, ethnicity, and nationality (Campbell and Mínguez-Vera, 2008). Furthermore, they use different tools such as stock price, a firm's market value, and Tobin's Q, for example, to examine performance. A study by Carter et al. (2003) examines performance value and board diversity using the Tobin's Q measurement indicator to find that boardroom diversity is positively significant to a firm's value in the context of the Fortune 1000 US Index. These results are consistent with those of Campbell and Mínguez-Vera (2008) who investigate Spain's market using panel data percentages for females, and the Blau and Shannon indicator (Tobin's Q) to arrive at the firm's value. They find a positive effect of gender diversity on the boardroom and on company value. Therefore, they suggest that increasing the number of women in the boardroom would bring economic value or gain to the firm. More female board members can mean that the balance between males and females is improved. However, this positive impact of gender diversity on the value of the company is not seen as significant in the opposite scenario (Campbell and Mínguez-Vera, 2008).

Another study by Lucas-Pérez et al. (2015) undertaken in Spain finds that gender diversity has a positive impact with compensations for top managers being linked with a firm's performance. However, this study focuses on gender diversity alone, rather than examining other aspects such as the qualifications or educational background of the females, or their contributions to the boardroom. Mahadeo et al. (2012) suggest that boards with diverse educational backgrounds and gender can improve performance only if both elements are considered. Another recent study in Spain reveals that age differences among boardroom composition positively affects a firm's performance (Ferrero-Ferrero et al., 2015). This study applies a new approach to test age differences, but does not test other types of diversity that could be relevant in the context of generational differences and how they contribute towards boardroom success.

Different contexts apply in different countries in relation to perceived boardroom success. For instance, Ntim (2015) finds that in South Africa, ethnicity is valued more than gender diversity on a board. The study reveals a positive and significant relationship between market valuation, and ethnicity and gender diversity, by using market value as a measure. In this study the market values both ethnicity and gender diversity as a signal for improved independence and monitoring of the board. Thus, context might shed light on different relevant diversity types relating to culture and the market environment. In Terjesen et al. (2016) data from 3,876 firms in 47 countries is looked at to suggest that companies employing women on the board produce better financial performance. Moreover, increased gender diversity enhances a firm's image about the perceived positive ethical behaviour of the company. Additionally, independent directorships are related to better company performance, but this also depends on gender diversity among the board.

Other scholars find no significant relationship between board diversity and a firm's performance. Furthermore, the impact of gender diversity on a firm's performance can be complicated (Adams and Ferreira, 2009). Rose (2007) provides evidence to suggest that gender diversity does not impact on company performance in the context of the composition of the board. Rose (2007) rejects the hypothesis for several reasons based around the use of Tobin's Q as a way of measuring diversity, and argues that diversity is not crucial for good firm performance. One reason cited is that non-controversial board members adopt the norms and behaviour of the leaders of the business. Moreover, income raised by the representation of women on the board is never realised or indicated by any chosen financial performance measure. This is because electing higher-level leaders or even accessing the boardroom depends on the decision maker's perspective in their society (Rose, 2007). Similarly, when Carter et al. (2010) examined the data of major companies in the US, they found no effect was made by gender diversity and ethnic minority diversity in the boardroom or on important committees in connection with a firm's financial performance (as measured by Tobin's Q and ROA). In fact, there are a lack of studies that test the diversity balance of gender and other types of diversity. This is one reason why the consistency of the diversity effect in the boardroom cannot be discovered, and why there is digression between scholarly findings.

The skills and education of boardroom directors are vital for influencing the board's performance. However, Rose (2007) suggests that educational background has no influence on a firm's board performance. The logical reason behind this is because boardrooms do not use education as a marker of performance, and board posts do not require the holder to have specific formal qualifications. However, human capital is important in managing the boardroom. The election of board members is usually based on past job success, such as CEO or relevant business experience (Rose, 2007). In contrast, Smith et al. (2006) report that the effect of women on a firm's performance mainly depends on the qualifications they hold. However, studies that measure a single member's contribution to boardroom activities are limited (see Gordini and Rancati, 2017). Determining the different types of diversity that contribute to effectiveness in the boardroom is an essential element of this book.

3.5 Boardroom Diversity and Board Effectiveness in the Middle East and North African (MENA) Countries, including Saudi Arabia

The MENA countries consist of 18 different countries, based on the OECD reports of the CG survey; namely, Mauritania, Morocco, Algeria, Tunisia, Libya, Egypt, Djibouti, Jordan, Lebanon, the Palestinian Authority, Iraq, Saudi Arabia, Kuwait, the United Arab Emirates (UAE), Bahrain, Qatar, Oman, and Yemen (OECD, 2019). These countries' GDP was estimated to be about 3.7 trillion US Dollars in 2019 (The World Bank, 2020). Most of the listed companies in these countries are largely dominated by concentrated owners, such as the pyramid ownership structure, family ownership, company group ownership, and government ownership (OECD, 2019). For example, Elamer et al. (2019) found that bank risk disclosure was influenced by the ownership structure as an essential channel, which may affect the CG in MENA countries. Boardroom structure is modelled on the unitary boardroom in 13 countries, and the two-tier boardroom in three countries (OECD, 2019). The report also shows that the size of boards in these countries ranges from three to fifteen members, while the appointment of the board of directors for a single session, ranges from three to six years.

These countries share some commonality and differences in terms of CG reform and leadership (see Kabasakal et al., 2012). For instance, quotas of women on the board and statistical rate disclosure have not yet been adopted in the CG codes of MENA countries, except in the UAE, which required Government ownership only to disclose the number of women on the board in the CG annual report (OECD, 2019).

Regarding board diversity in these countries, several challenges persist, especially for women. For example, by analysing board gender diversity in three MENA countries (Tunisia, Morocco, and Egypt), El Jadidi et al. (2020) reveals that obstacles persist regarding women's representation in the corporate boardroom. These difficulties consist of the traditional culture (e.g., social assumptions and attitudes, family responsibilities, and male domination in the workplace) and the glass ceiling (El Jadidi et al., 2020). These results are consistent with those found in a study by AlHares et al. (2019), which finds that men still dominate the boardrooms in MENA countries. However, when Sarhan et al. (2019) investigated board diversity and executive pay in MENA countries, they found positive associations between diverse gender, nationality, and ethnicity, and company performance; their study reveals that the associations are better in companies with a good CG framework. Similarly, Abdelzaher and Abdelzaher (2019) find that the number of women on the board was positively associated with the ROE and Tobin's Q; this study highlights the legitimacy of increasing the number of women in the Egyptian boardrooms of listed companies after the Arab Spring, as a positive indicator. Issa and Fang (2019) show that boardroom gender diversity is correlated positively with the level of CSR in Bahrain and Kuwait, but that this correlation is weak in other countries, such as in Oman, Saudi Arabia, Qatar and in the UAE; their study concludes that firstly, this is due to discrimination against women and stereotyping at a cultural and business level, and, secondly, that low representation restricted women's contribution to company outcomes and decision-making. Many MENA countries still face challenges regarding gender diversity, despite the benefits that women can bring to boardrooms. For example, another study in MENA countries by Sarhan and Ntim (2019) finds that board diversity (gender and ethnicity) is associated positively with CG voluntary disclosure; the results of this study are consistent with those of AlHares et al. (2019), who find that board gender diversity is positively associated with voluntary disclosure. It is important to address these challenges, as part of investigating different types of diversity.

In Tunisian listed companies, Loukil and Yousfi (2016) find that women are positively associated with risk avoidance, as measured by the cash ratio; this study also finds no association between gender diversity and a tendency to take greater risks, either financially or strategically. Further, Loukil and Yousfi (2016) observes that investors from overseas did not invest in companies with gender diversity. On the other hand, a study by Alhejji et al. (2018) which explores gender inequality in British multi-national corporations operating in the Middle East, particularly in Saudi Arabia, finds that, although formal institutions seek to promote gender equality, informal forces, such as culture, traditions, and norms, solidly oppose these attempts. Overall, eastern countries continue to be an understudied region, and transferring Western diversity practices to non-Western areas remains challenging (Lauring, 2013).

There is still a paucity of studies on the different types of diversity (e.g., age and educational background, etc.). In Jordan, a study by Makhlouf et al. (2018) reports that board diversity in terms of gender, educational level, and nationality is positively associated with accounting conservatism, except for age diversity, for which they failed to find an association. Furthermore, a study by Ibrahim and Hanefah (2016) conducted in Jordan, finds that board diversity variables, consisting of gender, age, independence, and nationality, are positively associated with CSR disclosure level. However, there remains a lack of research on boardroom diversity of various types and aspects which seeks to understand its contribution to these regions (see Sarhan et al., 2019). A review of research about boardroom diversity highlights this issue as a target for future research (Khatib et al., 2021b; Khatib et al., 2021a; Kent Baker et al., 2020).

A qualitative study by Alshareef and Sandhu (2015), based on a case study using interviews with two companies in Saudi Arabia, examines board diversity in regard to CSR adoption; this study highlights the importance of boardroom diversity regarding experience types, educational level, functional background, and knowledge and skills. Moreover, Alshareef and Sandhu (2015) suggest that board diversity is vital for enhancing boardroom effectiveness, and the board's monitoring, strategies, and services roles. However, Alshareef and Sandhu (2015) fail to consider factors such as age, gender, nationality diversity, and a range of different companies, as it is limited to only two companies. Hodges (2017) conducts interviews with twenty-five professional women in Saudi Arabia to examine the barriers which prevent women from attaining leadership positions; this study finds that women face cultural, social, religious, and organisational barriers, and that these boundaries should be taken into consideration in order to develop policies that prevent inequality with regard to women assuming leadership positions. Naif and Ali (2019) is a comparison study of the CG code in Saudi and Malaysia, which finds that, while the former has vastly improved, gender diversity is still lacking. Another recent study by Al-Matari and Alosaimi (2022) focuses in gender diversity only while ignoring other attributes of diversity, but suggests the importance of using a marketing-based indicator (e.g. Tobin's Q) to test for gender diversity in future research.

3.6 Summary

This chapter began with the presentation of different definitions of CG, identifying the definition most suitable for this book. In this context, the importance of the board of directors as a mechanism of CG was explored. The chapter then moved on to a discussion about the roles and duties of board members, sub-committees, and the protection of shareholder's funds. It reviewed board composition and selection as well as other factors that influence CG, such as power over appointments, ownership, and the role of the chairperson. After this, the chapter began to explore the main topic of the study which is board diversity, offering a definition of this concept and background information. Six types of boardroom diversity were identified for focus as part of the current monograph. Previous studies relating to board diversity and effectiveness were discussed, as well as different effectiveness mechanisms, and studies relating to diversity and company performance. Finally, previous research undertaken in MENA countries was examined, with a focus on the context of Saudi Arabia, noting the lack of research in this field in emerging economies, and particular in the Kingdom of Saudi Arabia.