THE MODERATING EFFECT OF FEMALE DIRECTORS IN THE RELATIONSHIP BETWEEN BOARD CHARACTERISTICS AND BOARD REMUNERATION

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Abstract

This study aims to analyze the influence of European sustainable companies' board of directors (BoD) characteristics on directors' remuneration, focusing on female directors' supervisory role. Hypotheses on the relationship between female directors, competences, independence, cultural diversity, and remuneration are proposed. The sample, drawn from the Euronext Vigeo Europe 120 index (2012–2021), is divided based on the financial market or bank orientation. Findings indicate that female directors' supervisory role, alongside independent directors, tends to decrease their remuneration. Financial orientation is crucial for establishing effective governance strategies regarding directors' remuneration oversight, particularly in countries reliant on bank financing. This underscores the significance of female directors' supervisory role, albeit limited to bank-dependent European countries.

The remuneration policy is considered a mechanism that may align the interests of shareholders and managers, and which may lead to

directors maximizing shareholders' wealth (Jensen & Murphy, 1990). Jensen and Meckling (1976) argued that director compensation systems should be designed to motivate them to establish actions that would increase shareholder wealth. Along these lines, Mangan et al. (2010) showed that the remuneration of directors should be high to attract experienced directors with certain skills and thus reward their work.

Therefore, the characteristics of the board members are a relevant aspect in determining the board remuneration. Previous studies have analyzed the effect caused by female directors (García-Izquierdo et al., 2018), the specific competencies of directors (Osiichuk, 2021), independent directors (Lim & Yen, 2011), cultural diversity (Zheng et al., 2012) of corporate boards in the board remuneration. In this sense, previous studies show that female directors tend to reduce the remuneration of directors (García-Meca, 2016) since women are more conservative (Man & Wong, 2013), risk-averse (Ullah et al., 2020), more ethical (Eweje & Brunton, 2010) compared to their male counterparts and have a more careful attitude in all matters related to remuneration (García-Meca, 2016). In this sense, previous literature has studied the role of gender diversity in moderating various aspects in the field of corporate governance such as the moderating effect of female directors in the relationship between board committees and firm value (Grau & Bel, 2022), or board committees and environmental disclosure (Pucheta-Martínez et al., 2021), or in the relationship between cash holding and the disclosure of corporate social responsibility (CSR) information (Pucheta-Martínez et al., 2023). However, there are no previous studies, as far as know which examine the moderating role of female directors in the relationship between some characteristics of the board and board remuneration.

In line with the above arguments, this manuscript tries to answer the following question: How does board gender diversity moderate the association between the board characteristics (board specific skills, the board independence, and the board cultural diversity) in the board remuneration of European sustainable companies? Thus, the objective of this study is to explore how the moderating role of the board gender diversity influences the relationship between the board specific skills, the board independence, and the board cultural diversity in the board remuneration. Furthermore, to extend the past research, it has been considered to divide the sample according to financial orientation since it is an important characteristic when establishing good governance strategies to establish surveillance protocols in the establishment of the remunerations of the board members. Financial orientation divides countries according to banking (Demirgüç-Kunt & Levine, 2001), where financial institutions are the predominant source of financing, or according to market, where funds are obtained mainly through stock markets (Berges et al., 2019) since the financial options of companies depend on it (Chakraborty & Ray, 2006). However,

Chakraborty and Ray (2006) showed that remunerations are lower in banking-oriented countries, as are investment and income per capita.

This research draws on various theories. Firstly, stewardship theory underscores the necessity of establishing agreements on director compensation policies to mitigate the agency problem between shareholders and managers. Moreover, it emphasizes the significance of human and social capital factors, including capabilities, knowledge, experiences, and skills acquired by directors outside the company (Johnson et al., 2013). Advisors' specific knowledge and skills enable diverse perspectives, active involvement in strategic decision-making, better information processing, and support for effective decision-making (Garcia-Meca & Palacio, 2018), gained from experiences in other companies or sectors. Hence, such expertise is deemed human capital, beneficial for business activities, and fostering connections between the firm and its environment (Bear et al., 2010).

Second, agency theory suggests that independent directors are more adept at overseeing managers and safeguarding shareholder wealth efficiently (Jensen & Meckling, 1976). Consequently, board independence diminishes information asymmetries, lowers agency costs, and enhances financial statement credibility (Setia-Amaja et al., 2011), thereby reducing borrowing expenses (Anderson et al., 2004). Empirical studies have demonstrated that independent directors influence various aspects such as financial reporting quality (Pucheta-Martínez et al., 2016), non-financial information disclosure (Garcia-Sanchez et al., 2022), dividend policy (Kilincarslan, 2021), environmental, social, and governance (ESG) criteria (Kamaludin et al., 2022), indebtedness (Goel & Khandelwal, 2023), and director compensation (Pucheta-Martínez & Narro-Forés, 2014). Companies with a greater number of independent directors tend to appoint fewer CEOs and reduce their compensation, thereby cutting recruitment costs (Core et al., 1999). Independent directors are incentivized by their expertise and reputation maintenance (Fama & Jensen, 1983). Moreover, Ryan and Wiggins (2004) found that directors receive incentives different from shareholders, with independent directors' compensation linked to stock performance. Independent directors also exert control over director compensation, especially bonuses and cash compensation (Lim & Yen, 2011).

The findings show that the supervisory role of female directors with independent directors tends to reduce the board remuneration of European sustainable companies. Furthermore, the results also show that female directors negatively moderate the relationship between independent directors and board remuneration in European companies with a financial orientation towards banking. Additionally, the results obtained also reveal that the presence of female directors on the boards does not affect the relationship between the board characteristics (board specific skills, board independence, and the board cultural diversity) and

the board remuneration of European companies with a financial orientation towards the market. Therefore, female directors do not play a moderating role in this relationship.

This manuscript contributes to the recent corporate governance literature in several ways. First, this manuscript explores the supervisory role of female directors on the corporate board of sustainable European companies in the relationship between board specific skills, board independence, and board cultural diversity and board remuneration of European sustainable policies, and the effect has not been investigated in previous literature. The interaction of female directors on the board with board independence is beneficial for companies because it will reduce board remunerations for both sustainable European companies and market-oriented companies, so these results are an important finding. To our knowledge, it is the first study to provide this evidence using a sample of European sustainable companies, thus contributing to previous empirical studies on board remuneration and the impact of some corporate governance mechanisms have on it. Second, this research expands previous knowledge on how board gender diversity and some board characteristics can affect board remuneration, considering the European sustainable companies included in the Euronext Vigeo Europe 120 index. This research complements previous studies that analyzed the direct relationship between board characteristics and board remuneration of directors. Thus, this study provides international evidence of how board remuneration can be mitigated by some corporate governance mechanisms, such as board independence when moderated by board gender diversity.

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