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Does Woman Directors Influence the Relationship between Gender Diversity in Audit Committee Members and Financial Reporting Readability: Evidence from Saudi Arabia

Dr. Abdulaziz Sulaiman Alsultan
Associate Professor in Accounting Department
College of Business
Imam Muhammad ibn Saud Islamic University (IMSIU)
assultan@imamu.edu.sa

Abstract

This study examines the relationship between gender diversity in audit committee members and financial reporting readability. The study also investigates the impact of woman directors on this relationship as moderating variable. This study employs ordinal logistic regression method, as this type of regression is suitable for situations where the dependent variable is divided into ordinal groups. The sample encompasses 91 non-financial companies listed on Saudi Stock Exchange over the period 2018-2023, resulting in a total of 546 firm-year observations. This study's findings reveal a significant positive impact of audit committee gender diversity on financial reporting readability. Furthermore, the interaction term between audit committee gender diversity and woman directors suggests a moderating effect. A thorough review of the literature reveals no prior studies conducted within the Saudi Arabian context that investigate the moderating effect of woman directors on the relationship between audit committee gender diversity and financial reporting readability. This research gap positions the current study to contribute to the under-developed literature by analyzing the influence of woman directors on this association.

Keywords: Gender diversity in Audit Committee Members; Financial Reporting Readability; Woman directors; Saudi Stock Exchange.

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هل يؤثر وجود النساء في مجالس الإدارة على العلاقة بين التنوع بين الجنسين في أعضاء لجنة المراجعة وقابلية التقارير المالية للقراءة: دليل من المملكة العربية السعودية

ملخص البحث

هدفت هذه الدراسة إلى دراسة العلاقة بين التنوع بين الجنسين في أعضاء لجنة المراجعة وقابلية التقارير المالية للقراءة. كما هدفت الدراسة أيضاً إلى دراسة أثر وجود النساء في مجالس الإدارة كمتغير معدل لهذه العلاقة. تستخدم هذه الدراسة أسلوب الانحدار اللوجستي الترتيبي، حيث أن هذا النوع من الانحدار مناسب في الحالات التي يتم فيها تقسيم المتغير التابع إلى مجموعات ترتيبية. تشمل العينة 91 شركة غير مالية مدرجة في سوق الأسهم السعودية خلال الفترة 2018–2023، مما أسفر عن إجمالي 546 مشاهدة. وتوصلت هذه الدراسة إلى وجود علاقة معنوية إيجابية بين التنوع بين الجنسين في لجنة المراجعة وقابلية التقارير المالية للقراءة. علاوة على ذلك، يشير التفاعل بين التنوع بين الجنسين في لجنة المراجعة ووجود النساء في مجالس الإدارة إلى تأثير معدل لتلك العلاقة. تكشف المراجعة الشاملة للدراسات السابقة ذات العلاقة عن عدم وجود دراسات سابقة أجريت في السياق السعودي للتحقق من الثر المعدل لوجود المرأة في مجالس الإدارة على العلاقة بين التنوع بين الجنسين في لجنة المراجعة وقابلية التقارير المالية للقراءة. إن هذه الفجوة البحثية تضع الدراسة الحالية في موقف يسمح لها بالمساهمة في الدراسات السابقة في الدول النامية من خلال تحليل تأثير المخرجات على هذه العلاقة.

الكلمات المفتاحية: التنوع بين الجنسين في أعضاء لجنة المراجعة، قابلية التقارير المالية للقراءة، وجود النساء في مجالس الإدارة ، السوق المالية السعودية.

1. Introduction

Financial reporting disclosed by companies is the primary source of information for stakeholders. Therefore, this information must be relevant, faithfully represented, comparable, timely, and understandable, without complex language, to aid users of financial statements in making informed decisions (Seifzadeh et al., 2021). Notes supplementing financial statements are a mandatory component of annual reports and represent narrative disclosures. The importance of narrative disclosure has grown in recent years as it describes, discusses, and evaluates a company's financial and non-financial performance, revealing underlying reasons for its performance, productivity, and competitiveness. Therefore, narrative disclosure should be a clear and effective means of communication so that users of financial reporting can accurately understand the intended message from the company's management (Hassan et al., 2019). The readability of qualitative disclosure is a crucial factor in assessing the quality of communication between users of financial reporting and corporate management (Smith, 2023).

Regulatory and supervisory bodies, such as the Securities and Exchange Commission (SEC) in the United States, have been concerned with the readability of annual financial reporting. In 1969, the SEC issued a report, Disclosure to Investors, which recommended avoiding lengthy and complex writing. Subsequently, in 1998, the SEC published the Plain English Handbook, providing guidelines for writing clear and understandable financial reports. Companies are required to adhere to these guidelines when preparing their financial disclosures (Karim, 2020).

Various theories, such as Agency Theory, Signaling Theory, and Legitimacy Theory, explain the motives of managers in making financial reporting more or less readable (Hassan et al., 2019). Two main hypotheses address whether management supports or manipulates financial reporting readability. The additional information hypothesis suggests that management provides easy-to-read qualitative disclosures to offer additional information, helping users make better decisions and reduce information asymmetry. In

contrast, the administrative obfuscation hypothesis proposes that management intentionally provides difficult-to-read disclosures to mislead investors about the company's performance (Karim, 2020).

Gender diversity on audit committees is recognized as a factor that can influence their effectiveness, particularly in supporting the board's oversight of internal and external audit functions (Miglani & Ahmed, 2019). However, research has not fully explored the impact of female directors on a company's approach to external auditing (Miglani & Ahmed, 2019). The same study acknowledges potential gender-based differences in leadership styles, ethical conduct, and decision-making. From a demand perspective, women with financial expertise on audit committees may seek a higher level of audit assurance compared to their male counterparts, driven by a desire to protect their reputation and minimize potential litigation losses. Conversely, from a supply perspective, the presence of women financial experts on audit committees might lead to lower audit fees due to auditors perceiving a reduced audit risk.

Previous studies (e.g., Velte, 2018; Alikhani et al., 2021; Alcaide-Ruiz and Bravo-Urquiza, 2022; Li et al. 2023; Ndegwa, 2024) consistently find a positive relationship between audit committee gender diversity and financial reporting readability. Building upon this existing research, the current study contributes to the ongoing scholarly discourse on this topic. Given the critical role of financial reporting readability information in capital markets and its potential benefits for companies, these findings can inform regulators and stakeholders in developing effective corporate governance practices.

Corporate governance codes often advocate for the appointment of woman directors to streamline the identification and selection of new board members. These committees play a crucial role in strengthening the board's effectiveness by overseeing its composition, including ensuring board independence and enhancing directors' qualifications (Ruigrok et al., 2006). Several studies highlight the significant role that woman directors play in moderating the relationship between financial reporting readability and

diversity within the audit committee (Suttipun, 2021; D'Apolito et al., 2022; Iannuzzi et al., 2023). Additionally, research demonstrates a positive correlation between the diversity of woman directors and the diversity of audit committee members (Chijoke-Mgbame et al., 2020; Alhababsah & Yekini, 2021; Alkebsee et al., 2021). Ultimately, a key function of woman directors is to appoint qualified directors who can implement long-term strategies that align with stakeholder expectations for improved financial and sustainability performance (Iannuzzi et al., 2023).

Based on the preceding discussion, this study's research questions can be summarized as follows: (1) Does gender diversity within audit committees positively impact financial reporting readability? (2) Does the strength or direction of this positive impact vary based on the presence of woman directors? The primary objective of this research is to investigate the relationship between audit committee gender diversity and financial reporting readability among Saudi Stock Exchange-listed companies, determining if an association exists between these two variables and whether woman directors influence the direction or strength of this relationship.

This research emphasizes the importance of women in leadership roles, which can help break down traditional barriers hindering women's advancement in the business world. The inclusion of women on audit committees fosters diversity of perspectives and experiences, resulting in more comprehensive decision-making. Female audit committee members may enhance the financial audit process, mitigate risks, and safeguard shareholder interests. This research aligns with the Kingdom's Vision 2030, which aims to empower women and expand their economic participation. Regarding financial markets, the research contributes to our understanding of the influence of gender diversity on the efficiency of Saudi financial markets. In conclusion, this research deepens our understanding of women's roles in the business landscape and how their presence can positively impact corporate performance and financial reporting transparency. It offers valuable insights

for policymakers, investors, and organizations committed to promoting gender diversity.

This paper is motivated by the lack of research on the relationship between audit committee gender diversity and financial reporting readability in Saudi Arabia, and the mixed empirical evidence from previous studies. This research gap is particularly relevant in the context of Saudi Arabia, a developing economy with a distinct business environment compared to developed countries.

This paper makes three key contributions to the existing literature: (1) it expands the current body of research by analyzing the influence of woman directors on the relationship between audit committee gender diversity and financial reporting readability; (2) to the author's knowledge, this is the first study to investigate the impact of woman directors on this specific association; and (3) no prior research published in Saudi Arabia (to the researcher knowledge) has examined the effect of woman directors on the association between audit committee gender diversity and financial reporting readability in Saudi Arabia.

This study's findings reveal that (a) diversity within audit committees exerts a significant positive influence on financial reporting readability, and (b) the strength of the association between audit committee gender diversity and financial reporting readability varies depending on woman directors.

The reset of paper is organized as follows: Section 2 provides a Saudi Context. Section 3 reviews relevant theoretical literature. Section 4 develops research hypotheses based on a review of pertinent empirical studies. The research design is presented in Section 5, followed by the results and discussion in Section 6. Finally, Section 7 offers a summary and conclusion of the paper.

2. Saudi Context

In recent years, Saudi Arabia has made considerable advancements in empowering women, including their involvement in corporate boards, as laws and regulations have been revised to strengthen women's roles in the private sector, permitting them to run for and join corporate boards (Al-Nasrallah, 2023). The Saudi government has established objectives to enhance women's representation in leadership roles, including boards of directors, as Vision 2030 seeks to boost women's participation in the workforce (Almathami et al. 2024). The Kingdom of Saudi Arabia aims to strengthen the role of women as a vital element in economic development, aiding in the attainment of economic and social objectives (Awwad and Hamdan, 2023). It provides various training and development programs for women to prepare them for leadership roles, including management and leadership courses (Vogel and Alhudithi, 2023). As a result of these efforts, Saudi Arabia has witnessed a significant increase in the number of women in leadership roles, including corporate boards (Hodges, 2017). This reflects favorable changes in economic and social policy (Rizvi and Hussain, 2022).

Saudi Arabia has implemented legal reforms to empower women, including allowing them to serve on company audit committees (Rizvi and Hussain, 2022). Under the Commercial Companies Law (2015), women are permitted to serve on audit committees, demonstrating the Kingdom's dedication to enhancing women's involvement in leadership positions (Ali, 2019). This law promotes female representation on audit committees as part of initiatives to foster diversity in the workplace (Hamdan et al. 2022). These changes are part of Saudi Vision 2030, which seeks to boost women's involvement in economic and social activities (Saleh and Malibari, 2021).

The Saudi accounting standard concerning the readability of financial statements is International Financial Reporting Standard No. 1, which has been adopted in Saudi Arabia. This standard emphasizes the need to present financial information clearly and understandably for users, enhancing the transparency of financial statements and aiding in economic decision-making.

The core principles of this standard include clarity of information: the information must be clear and unambiguous; good formatting: organizing financial statements to facilitate easy reading and analysis; and disclosure: offering necessary disclosures that aid in interpreting the presented figures (Aldoseri and Melegy, 2023).

3. Theoretical Literature Review

Readability is a linguistic characteristic of qualitative disclosure that emphasizes style (Gutiérrez et al., 2023). However, there is no universally accepted definition of readability. Zamanian and Heydari (2012) define readability as the degree to which a text is easy to read and understand, as well as the reading speed. Texts are considered easy to read when they exhibit certain linguistic traits, such as lexical sophistication and syntactic simplicity. Hinkel (2003) characterizes readability as the extent to which a group of readers finds a text engaging and comprehensible. Thompson (1986) defines readability as the ease of understanding based on writing style and the organization of ideas. Erkens et al. (2015) further noted that non-financial disclosure is deemed readable when individual investors or financial analysts can absorb the information relevant for evaluation purposes.

Two key assumptions exist regarding management's motives for manipulating financial reporting readability: the additional information assumption and the administrative obfuscation assumption. The additional information assumption posits that management offers easy-to-read qualitative disclosures to provide additional information, helping users make better decisions and reduce information asymmetry between management and investors. In contrast, the administrative obfuscation assumption suggests that management intentionally presents difficult-to-read qualitative disclosures to mislead investors about the company's performance by managing impressions (Seifzadeh et al. 2021).

Several theories explain managers' motivations for adjusting financial reporting readability, including Agency Theory, Signaling Theory, and Legitimacy Theory. Agency Theory posits that an economic unit consists of a

series of contractual relationships, where agency relationships emerge when one or more individuals, known as the principal, authorize another individual, called the agent, to perform specific services on their behalf. This theory also assumes a conflict of interest between the principal and the agent due to their differing goals, such as maximizing shareholder value versus maximizing personal wealth. This conflict of interest exacerbates agency problems, which intensify with increasing information asymmetry (Ndegwa, 2024). According to Agency Theory, managers are inclined to enhance the disclosure of non-financial information and make it clearer and more readable to reduce information asymmetry between owners and investors. This non-financial information is viewed as complementary to financial information, providing additional context that helps explain financial data and enhances transparency (Ndegwa, 2024).

Signaling Theory suggests that managers use narrative disclosure to send signals to investors. According to this theory, readability can serve as a means of signaling strong company performance by enhancing the clarity of information, distinguishing it from other firms. In contrast, companies with poor performance may obscure negative information, making it more difficult to read and interpret. Signaling Theory also posits that companies with good performance and high profits will disclose more information than those with poor performance (Huong et al., 2024).

Legitimacy Theory suggests that companies seek societal approval or avoid sanctions by aligning their activities with societal values and norms. According to this theory, a company ensures the continuity of its operations by adhering to societal rules and values. Consequently, the company discloses non-financial information to legitimize its activities and create an impression of social responsibility. This theory also explains that companies may make non-financial disclosures in response to social pressures. To manage their image and gain legitimacy, companies may obscure information or make it difficult to read (Ndegwa, 2024).

The role of women on boards of directors and corporate committees, particularly the audit committee, has been a significant focus of administrative and economic research in recent years. Many countries, including Saudi Arabia, are seeking to enhance women's participation in various sectors, including the private sector. In this context, the question of the impact of women's presence on the board of directors on gender diversity in the audit committee, specifically in the Saudi context, is of great interest (Terjesen et al., 2009).

Gender diversity on boards and audit committees contributes to enhanced corporate governance by providing different and diverse perspectives, leading to more inclusive and effective decision-making (Sultana et al., 2020). Moreover, gender diversity contributes to sustainability by integrating social and environmental considerations into decision-making (Rao and Tilt, 2016). The presence of women on boards of directors and audit committees is an important step towards women's economic empowerment and enhancing their participation in decision-making (Terjesen et al., 2009).

4. Review of Empirical Literature and Development of Research Hypotheses

This section reviews existing literature on the relationship between audit committee diversity and financial reporting clarity. Specifically, we will explore the potential moderating role of female directors in this relationship.

Several studies (e.g., Nadeem, 2022; Shauki and Oktavini, 2022; Abínzano et al., 2024; Ben-Amar et al., 2024; Ndegwa, 2024) have found a positive link between audit committee diversity and financial report readability, noting differences in readability based on the type of diversity. Conversely, other research (Velte, 2018; Alikhani et al., 2021; Bepari, 2023) has found insignificant relationship between gender diversity in audit committees and financial report readability.

Building on the earlier point about the positive impact of gender diversity in audit committees on financial reporting readability, this research suggests

that having women on the committee results in the provision of more detailed and useful financial reporting information for stakeholders. This finding is a significant contribution to the field, as it highlights how gender diversity within the audit committee specifically affects financial reporting readability.

Nadeem (2022) hypothesized that women on the audit committee could influence the clarity of financial disclosure reports (10-K). He found that their presence enhances the comprehensibility of these reports, indicating that companies with more gender-diverse audit committees tend to produce clearer and more understandable reports. The impact of gender diversity was particularly pronounced with independent women on the audit committee, who, free from the interests of executive management, can help ensure the clarity and transparency of financial reports. Nadeem also discovered that improving the comprehensibility of financial disclosure reports through gender diversity on the audit committee leads to better company performance, enhances corporate governance, boosts investor confidence, and positively affects the company's financial outcomes.

Shauki and Oktavini (2022) investigated the relationship between earnings management practices and the readability of corporate annual reports, focusing on the influence of women on the audit committee. They found a positive link between women on the audit committee and the relationship between earnings management and annual report readability, indicating that women may impact how reports are prepared or the extent to which companies can conceal earnings management practices. The study emphasizes the importance of transparency in financial reporting, as earnings management can result in less clear reports. While women on the audit committee can positively influence governance quality, this research suggests that their impact may have limitations regarding earnings management and report readability.

Abínzano et al. (2024) hypothesized that women on the audit committee could influence the readability of annual reports in family firms. They found

that the presence of women on the audit committee enhances the readability of these reports, indicating that family firms with more gender-diverse audit committees tend to produce clearer and more understandable reports. Additionally, gender diversity on the audit committee seems to influence the expressive style used in the reports, leading to a less optimistic and more neutral tone. Overall, gender diversity on the audit committee may help improve corporate governance and boost investor confidence in family firms.

Ben-Amar et al. (2024) hypothesized that women on the audit committee could influence the language used in companies' financial reports. They found that the presence of women on the audit committee enhances the readability of these reports, indicating that companies with more gender-diverse audit committees produce clearer and more understandable documents. Furthermore, gender diversity on the audit committee influences the expressive style of the reports, with companies exhibiting less ambiguous and more direct language. The study also noted that gender diversity is associated with a less optimistic and more neutral tone in financial reports.

Ndegwa (2024) explored the relationship between key variables in corporate governance and financial reporting within emerging economies. He examined the impact of sustainable reporting on financial statement quality and readability, the role of audit committee diversity in enhancing financial reporting quality, and the relationship between earnings management practices and financial statement readability. Ndegwa found a positive relationship between sustainable reporting and financial statement readability, suggesting that companies committed to social and environmental responsibility also prioritize the quality of financial reporting. Additionally, he found that audit committee diversity, particularly in terms of gender, positively affects the readability of financial statements. As anticipated, the study revealed an inverse relationship between earnings management practices and financial statement readability, with companies engaged in earnings management producing less clear and more complex financial statements.

The literature generally supports a positive relationship between audit committee diversity and financial reporting readability. However, further analysis suggests that these findings may be influenced by the specific research methods used. To address this gap and enhance existing knowledge, the current study employs an archival data approach to investigate this relationship. This approach is well-regarded in financial reporting research for its reliability and appropriateness. Notably, existing studies on this topic frequently overlook the banking industry, prompting the researchers to focus on this relationship specifically within the context of accounting practices and businesses in Saudi Arabia. Therefore, the first hypothesis can be derived as follow

***H_1: Gender diversity in audit committee members positively affects financial reporting readability*.**

Several studies (Ginesti et al., 2018; Abínzano et al., 2024) have found that financial reporting readability differs among companies with varying levels of female director diversity. Additionally, other research (Chijoke-Mgbame et al., 2020; Tang and Suwarsini, 2021; Abbasi et al., 2024; Bansal, 2024) indicates that the diversity of audit committee members also varies across companies with different levels of female director diversity.

Given the potential influence of female directors on both audit committee member diversity and financial reporting readability, the researchers suggest that the interaction between these factors may create a new interaction term that could moderate the relationship being studied. As a result, they chose a moderating effects approach, treating female directors as a moderating variable rather than simply as a control variable that directly impacts the dependent variable (financial reporting readability).

The gender diversity of board members and sub-committees is a crucial factor for effective governance, influencing their values, beliefs, decision-making styles, and risk tolerances. Research indicates that gender diversity

improves team performance, especially for complex tasks, and is positively correlated with company performance (Ferrero et al., 2015).

While male directors contribute valuable experience to firms, recent research indicates a possible connection between male-dominated boards and weaker monitoring practices and lower firm performance (Masulis et al., 2018). In contrast, female CEOs are significantly more likely to lead companies with higher financial reporting readability. Building on these findings, Iannuzzi et al. (2023) encourage boards to actively promote gender diversity, highlighting its importance in fostering a variety of perspectives from different genders and enhancing effective succession planning.

The appointment of female directors significantly promotes diverse and innovative perspectives on the board, as research by Tahir et al. (2020) indicates that female board members are more open to change and eager to address new challenges. Furthermore, agency theory suggests that female diversity is crucial for achieving a range of thoughts, enhancing board experience and problem-solving abilities, and fostering an understanding of different viewpoints (Iannuzzi et al., 2023). As a result, a board with female diversity can lead to more effective monitoring and a more balanced decision-making process (Ferrero et al., 2015).

Prior studies have identified several positive outcomes linked to female representation on boards, including a greater likelihood of entering new markets and business areas (Li et al., 2017). However, compared to female CEOs, female board members may show a lower tendency for acquisitions, possibly due to greater risk aversion (Gormley and Matsa, 2016). Additionally, Tahir et al. (2020) connect the inclusion of female board members with a higher dividend payout policy.

To formulate the second alternative hypothesis (H2), the researcher posits that the interaction between female directors and financial reporting readability serves as a moderating variable, potentially affecting the strength or direction of the previously established relationship. This hypothesis can be expressed as follows:

H_2: Woman directors moderate the relationship between gender diversity in audit committee members and financial reporting readability.

5. Research Design

The research design focuses on the practical aspects of the study, outlining the model employed in the investigation, which includes the gender diversity among audit committee members and the readability of financial reports. It also examines the moderating impact of female directors on this relationship, details the sample selection process, and provides an overview of how the variables are measured.

Model Specification

The research model utilized in the fundamental analysis is illustrated in Figure 1 below:

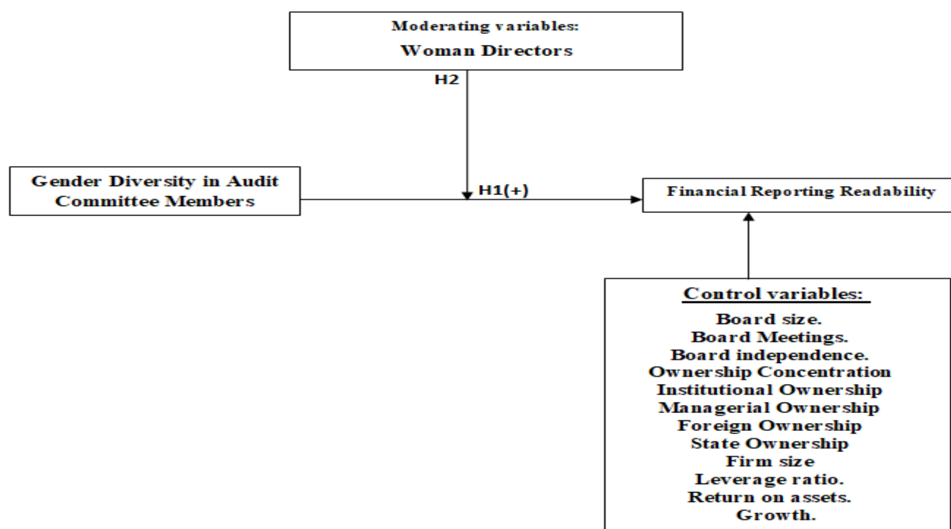

Figure 1: Research model Created by author

Gender Diversity In Audit Committee Members And Financial Reporting Readability Model

The analytical testing of H1 was conducted using ordinal logistic regression method, as illustrated in equation (1):

$$FRRD_{(it)} = \beta_0 + \beta_1 GDAC_{(it)} + \beta_2\ BoardSize_{(it)} + \beta_3\ BoardMeeting_{(it)} + \beta_4\ BoardIndep_{(it)} + \beta_5 OwnC_{(it)} + \beta_6 InstOwn_{(it)} + \beta_7 ManagOwn_{(it)} + \beta_8 ForeignOwn_{(it)} + \beta_9 StateOwn_{(it)} + \beta_{10} Loss_{(it)} + \beta_{11} FS_{(it)} + \beta_{12}\ LEV_{(it)} + \beta_{13}\ ROA_{(it)} + \beta_{14}\ Growth_{(it)} + \varepsilon_{(it)} \quad \text{(Model 1)}$$

Where:

FRRD.	Financial reporting readability;
GDAC.	Gender diversity in audit committee members;
BoardSize.	Number of directors in the Board;
BoardMeeting.	Number of Board meetings by year;
BoardIndep.	Percentage of independent directors within the Board;
OwnC.	Ownership concentration;
InstOwn.	Institutional Ownership;
ManagOwn.	Managerial Ownership;
ForeignOwn.	Foreign Ownership;
StateOwn.	State Ownership;
Loss.	Loss;
FS.	Firm Size;
LEV.	Debt ratio;
ROA.	Return on assets;
Growth.	Growth.

The Moderating Effect of Woman Directors on the Association between Gender Diversity In Audit Committee Members and Financial Reporting Readability

To analytically test H2, ordinal logistic regression method was employed, as shown in the following equation (2):

$$FRRD_{(it)} = \beta_0 + \beta_1 GDAC_{(it)} + \beta_2\ FD_{(it)} + \beta_3\ GDAC*FD_{(it)} + \beta_4\ BoardSize_{(it)} + \beta_5 BoardMeeting_{(it)} + \beta_6\ BoardIndep_{(it)} + \beta_7 OwnC_{(it)} + \beta_8 InstOwn_{(it)} + \beta_9 ManagOwn_{(it)} + \beta_{10}\ ForeignOwn_{(it)} + \beta_{11} StateOwn_{(it)} + \beta_{12} Loss_{(it)} + \beta_{13} FS_{(it)} + \beta_{14}\ LEV_{(it)} + \beta_{15}\ ROA_{(it)} + \beta_{16}\ Growth_{(it)} + \varepsilon_{(it)} \quad \text{(Model 2)}$$

Where, $FD_{(it)}$ woman directors and ***GDAC*FD*** is the interaction among gender diversity in audit committee members and woman directors.

Sample Selection

After excluding financial institutions, all non-financial companies listed on the Saudi Stock Exchange were included in the preliminary sample for the period from 2018 to 2023. Excluding the financial sector is a common practice in many research and analytical contexts. This choice is often influenced by several factors, including the unique characteristics of the financial sector, data quality and accessibility, the specific focus of the research, and considerations regarding sample size and representativeness (Eil & Rao, 2011). Therefore, the decision to omit the financial sector was not an oversight but a deliberate choice based on methodological considerations aimed at improving the accuracy and effectiveness of the current research study.

Table 1 presents the sectoral distribution of the sample companies, including the number and percentage of companies in each sector relative to the total sample. In total, data were gathered for 91 firms across 9 sectors, resulting in 546 firm-year observations.

Table 1: Sample selection

Sectors	Sample firms	%
Materials	28	30.7
Food and Staples Retailing	6	6.6
Capital Goods	12	13.2
Retailing	8	8.8
Health Care	7	7.7
Consumer Services	8	8.8
Food and Beverages	8	8.8
Real Estate Management and Development	8	8.8
Consumer Durables and Apparel	6	6.6
Total	91	100

Measurement Of The Variables

Dependent variable

The dependent variable, financial reporting readability, was assessed using the Fog index, a measure of the ease or difficulty of reading the report. The Fog index was calculated for each paragraph containing approximately 100 words, as described by Madadizadehe et al. (2024):

Fog Score = (Words per Sentence + Percent of Complex words) * 0.4

The Fog index assesses text complexity by considering the average word count per phrase and the proportion of complex terms per paragraph. Complex words are defined as those with three or more syllables. After calculating the Fog score, the result is compared to a readability classification chart to determine the text's difficulty level. Scores are assigned as follows: (4) for very easy texts, (3) for easy texts, (2) for acceptable texts, (1) for difficult texts, and (0) for very difficult, unreadable, and complex texts. The data is then analyzed within these five categories using the Ordinal Logistic Regression method.

Independent variable

The independent variable, gender diversity in audit committee members, is measured by calculating the percentage of female members in the audit committee. This is done by dividing the number of female members by the total number of audit committee members (Oradi and Izadi, 2020; Saleh and Abou Elela, 2023)."

Moderating variable

The moderating variable is the interaction between gender diversity in audit committee members and the presence of female directors. Female director size is calculated as the number of female directors on the board (Iannuzzi et al., 2023). This interaction is measured by multiplying a dummy variable for gender diversity in audit committee members with a dummy variable for the presence of female directors.

Control Variables

Board size is determined by the number of directors on the board (Al-Shaer and Zaman, 2016). Board meetings are calculated as the total number of meetings held per year (Al-Shaer and Zaman, 2016). Board independence is measured as the percentage of independent directors within the board (Al-Shaer and Zaman, 2016). The percentage of shares held by the largest shareholder is used as a proxy for ownership concentration (Shandiz et al., 2022). Institutional ownership is measured by the ratio of shares held by institutional shareholders to the total shares of the company (Shandiz et al., 2022). Managerial ownership is determined by the ratio of shares held by senior management to the total outstanding shares of the company (Shandiz et al., 2022). Foreign ownership is assessed based on the percentage of shares held by foreign investors (Shandiz et al., 2022). Finally, state ownership is calculated using the percentage of shares held by state shareholders (Shandiz et al., 2022). The indicator variable "loss" is assigned a value of 1 if the firm reports a loss and 0 if it does not (Ndegwa, 2022). Firm size is calculated as the logarithm of total assets (Ndegwa, 2022; Ahmed and Magdy, 2023). The leverage ratio is derived from the ratio of total debt to total assets (Ndegwa, 2022). Return on assets is determined by dividing earnings before interest and tax by total assets (Ndegwa, 2022). Growth rate is calculated as (Revenuet – Revenuet-1) / Revenuet-1 (Ndegwa, 2022).

6. Results And Discussion

This section of the study aims to elucidate the descriptive statistics, examine the strength of the associations among the variables, and present the results of the statistical tests conducted for the hypotheses.

Descriptive Statistics

Table 2 presents the summary statistics (means, standard deviations, minimum, and maximum values) for the study variables (dependent, independent, moderating and control variables) covering the period from 2018 to 2023. The relatively low standard deviations for most variables suggest a consistent pattern across the sample companies' financial statements.

However, the growth rate exhibits a higher standard deviation than its mean, indicating a wider range of growth levels among the companies. This variability is likely due to the diverse nature of the sample, including firms from various sectors and economic conditions.

Table 2: Descriptive statistics

Variable	Minimum	Maximum	Mean	Std. deviation
FRRD	0	4	2.31	1.265
GDAC	.0	.2	.062	.0612
FD	.0	.4	.017	.007
BoardSize	5	15	8.37	1.73
BoardMeeting	2	11	5.05	1.54
BoardIndep	0	1	.50	.159
OwnC	.0	.7	.095	.043
InstOwn	.00	21.68	.2118	.044
ManagOwn	.000	6.046	.1006	.088
ForeignOwn	.000	.177	.0407	.04004
StateOwn	.000	.843	.0489	.0368
LOSS	0	1	.29	.056
FS	1.869	5.014	3.26	.597
LEV	.0081	.925	.373	.245
ROA	-.367	.250	.0209	.0906
Growth	-.99	35.1	.176	2.15
Valid N	546			

To assess the relationships between variables, the researcher employed Pearson's correlation coefficient. Assuming no multicollinearity, a correlation coefficient below 0.7 between the independent variable and the interaction terms indicates a relatively weak or moderate association.

The study employed ordinal logistic regression method to examine the relationships between multiple independent variables and the dependent variable. Pearson correlation coefficients were used to assess these relationships, given the normality of the data. As shown in Table 3, the correlation matrix reveals minimal intercorrelations among the variables, with

all coefficients below the 0.7 threshold that might indicate multicollinearity concerns in regression analysis.

Table 3: Pearson correlation coefficients

Correlation	FRRD	GDAC	FD	Board Size	Board Meeting	BoardIndep	OwnC	InstOwn	ManagOwn	ForeignOwn	StateOwn	LOSS	FS	LEV	ROA	Growth
FRRD	1															
GDAC	.358**	1														
FD	.489**	.542**	1													
BoardSize	.336**	.518**	.565**	1												
BoardMeeting	.298**	.546**	.652**	.565**	1											
BoardIndep	.434**	.594**	.686**	.550**	.689**	1										
OwnC	.049	.323**	.558**	.275**	.371**	.336**	1									
InstOwn	.095*	.206**	.460**	.287**	.281**	.254**	.238**	1								
ManagOwn	.151**	.311**	.694**	.356**	.410**	.374**	.503**	.689**	1							
ForeignOwn	.103*	.226**	.485**	.309**	.395**	.356**	.265**	.233**	.341**	1						
StateOwn	.209**	.391**	.720**	.524**	.576**	.525**	.463**	.327**	.522**	.440**	1					
LOSS	-.072	-.438**	-.236**	-.308**	-.283**	-.254**	-.246**	-.102*	-.152**	-.252**	-.203**	1				
FS	.368**	.550**	.588**	.692**	.575**	.466**	.229**	.263**	.337**	.478**	.511**	-.350**	1			
LEV	-.105*	-.439**	-.438**	-.279**	-.359**	-.398**	-.300**	-.148**	-.223**	-.168**	-.397**	.383**	-.303**	1		
ROA	.304**	.445**	.499**	.477**	.427**	.578**	.339**	.185**	.343**	.381**	.472**	-.353**	.410**	-.316**	1	
Growth	.156**	.198**	.572**	.269**	.293**	.270**	.289**	.603**	.644**	.247**	.409**	-.068	.228**	-.121**	.222**	1

N=546
** Correlation is significant at the 0.01 level (2-tailed).
* Correlation is significant at the 0.05 level (2-tailed).

Empirical Results

The research hypotheses test findings are as follows.

The primary objective of this study was to investigate the relationship between gender diversity on audit committees and financial reporting readability. The ordinal logistic regression analysis results, presented in Table 4, support our initial hypothesis. Gender diversity on audit committees is found to have a statistically significant and positive association with financial reporting readability, as evidenced by the coefficient of 0.14 (Table 4). The R-square McFadden value of 0.295 in Table 4 indicates that gender diversity and the control variables on audit committees explains approximately 29.5% of the variation in financial reporting readability. Furthermore, the model's statistical significance is confirmed by a p-value of less than 0.05.

The statistical analysis concludes that gender diversity on audit committees has a significant positive impact on financial reporting readability, supporting the alternative hypothesis (H1) and rejecting the null hypothesis. These findings are consistent with existing research (Nadeem, 2022; Shauki and Oktavini, 2022; Abínzano et al., 2024; Ben-Amar et al., 2024; Ndegwa, 2024). However, they diverge from studies by Velte (2018), Alikhani et al. (2021), and Bepari (2023), which found insignificant relationship between gender diversity and financial reporting readability.

The study's findings align with agency theory. As agency problems become more prevalent, managers are incentivized to enhance non-financial disclosure, making it more transparent and readable. This reduces information asymmetry between owners and investors. Non-financial information complements financial data, providing additional context that aids in understanding financial figures (Ndegwa, 2024).

The study's findings also align with signaling theory, suggesting that managers use narrative disclosures to signal company performance to investors. Readability serves as a tool for signaling strong performance by enhancing the clarity of information that distinguishes a firm from its competitors. Conversely, companies with poor performance may obfuscate negative information through less readable disclosures. Signaling theory posits that firms with strong performance and higher profits are more likely to disclose more information than those with weaker performance (Huong et al., 2024).

As shown in Table 4, the study found positive associations between board independence, firm size, return on assets, growth rate, and financial reporting readability. Conversely, the results revealed significant negative associations between managerial ownership, foreign ownership, and financial reporting readability.

Table 4: Relationship between diversity in audit committee members and financial reporting readability.

Variable	Column 1	Column 2
GDAC.	.140	0.009** (2.631)
BoardSize.	-.021	0.706 (-0.377)
BoardMeeting.	-.050	0.383 (-0.874)
BoardIndep.	.358	.0.000** (6.045)
OwnC.	.069	0.229 (1.204)
InstOwn.	-.087	0.094 (-1.680)
ManagOwn.	-.776	0.000** (-4.375)
ForeignOwn.	-.109	0.016** (-2.423)
StateOwn.	-.053	0.329 (-0.976)
LOSS.	.105	0.015** (2.429)
FS.	.339	0.000 (5.680)
LEV.	.072	0.102 (1.640)
ROA.	.140	0.005** (2.851)
Growth.	.780	0.000** (4.960)
R-square McFadden	0.295	
Sig.	0.000	
N.	546	

Notes: This table displays the findings from the statistical analyses that investigated the relationship between gender diversity in audit committee members and financial reporting readability. Column 1 presents the coefficients for all variables, with robust t-statistics shown in parentheses. Asterisks (**) indicate a significance level at 5% or less.

The researcher investigated how female director diversity moderates the relationship between audit committee member diversity and financial reporting readability. The ordinal logistic regression model in Table 5 is statistically significant (p-value < 0.05), with an R-square McFadden of 56.3% (up from 29.5% in Table 4). The interaction term "audit committee

member diversity * woman directors" has a negative coefficient of -0.327 (p-value < 0.05), suggesting a shift in the impact of audit committee member diversity when considering female director diversity. These findings support the alternative hypothesis (H2) and reject the null hypothesis, aligning with existing research (Ginesti et al., 2018; Abínzano et al., 2024).

The study's findings support both agency theory and resource-dependence theory. According to agency theory, female directors, involved in selecting executives and board members, help reducing information asymmetry between owners/shareholders and management, aligning their interests (Soana & Crisci, 2017). This aligns with our finding that female director characteristics act as a corporate governance control mechanism, potentially lowering agency costs (Iannuzzi et al., 2023).

As shown in Table 5, financial reporting readability is positively and significantly associated with female directors, firm size, return on assets, and growth rate. Conversely, the results indicate negative and significant associations with ownership concentration, managerial ownership, foreign ownership, and state ownership.

Table 5: Female director moderating model in regression

Variable	Column 1	Column 2
GDAC.	.114	0.007** (2.719)
FD.	.886	0.000** (13.797)
GDAC*FD.	-.327	0.000** (-10.536)
BoardSize.	.003	0.939 (0.076)
BoardMeeting.	-.024	0.595 (-0.531)
BoardIndep.	.028	.0.571 (0.566)
OwnC.	-.124	0.007** (-2.687)
InstOwn.	-.059	0.144 (-1.464)
ManagOwn.	-.504	0.001** (-3.450)

Variable	Column 1	Column 2
ForeignOwn.	-.198	0.000** (-5.514)
StateOwn.	-.266	0.000** (-6.016)
LOSS.	.017	0.634 (0.477)
FS.	.110	0.025 (2.256)
LEV.	.188	0.000** (5.354)
ROA.	.207	0.000** (5.323)
Growth.	.284	0.028** (2.200)
R-square McFadden	0.563	
Sig.	0.000	
N.	546	

7. Summary and Conclusion

This study investigates the complex relationship between gender diversity in audit committees and financial reporting readability, focusing on the moderating role of female directors. Conducted in Saudi Arabia, the research employs rigorous statistical analysis to support its findings. Key results demonstrate a significant positive association between audit committee gender diversity and financial reporting readability, with this association varying based on the presence of female directors. This study is the first to explore the moderating effect of female directors on this relationship, contributing to the existing literature and providing valuable insights into the interplay between audit committee gender diversity, female directors, and financial reporting readability.

This research offers valuable insights for various stakeholders. Policymakers, such as the Saudi Arabia Minister for Trade Policy, can use the findings to inform policy development. The study likely assesses whether companies with more diverse audit committees are more likely to adopt transparent financial reporting practices, benefiting stakeholders interested in sustainability. Additionally, the research explores the possibility that diverse audit committees contribute to a more thorough review of financial

reporting, encompassing both financial and readability aspects. This could enhance corporate governance. Investors, increasingly considering financial reporting readability in their decisions, may find companies with diverse audit committees and improved financial reporting to be more attractive investments due to their commitment to responsible practices.

While this research offers valuable insights, it's important to acknowledge certain limitations. First, the study focused exclusively on non-financial enterprises listed on the Saudi Stock Exchange, limiting its applicability to other contexts like the banking industry, foreign currency reporting, or non-listed entities. Second, the research only examined the moderating impact of female director diversity, neglecting other potential factors. Additionally, firm attributes like age, which can influence financial reporting practices, were not considered. Finally, drawing strong conclusions requires careful consideration of the research objectives, time frame, sample, and specific criteria used for firm selection.

This research lays the groundwork for further understanding how to enhance financial reporting readability practices among Saudi Stock Exchange-listed companies. Future studies could explore additional avenues, such as the relationship between female director characteristics (educational background, industry experience, cultural context) and financial reporting readability. Additionally, research could investigate the impact of the gender and ethnic minority composition of female directors on the relationship between diverse audit committees and financial reporting readability. Finally, examining regulatory frameworks for corporate governance and financial reporting readability in other countries can provide valuable insights into how these regulations influence the interplay between female directors, audit committee gender diversity, and financial reporting readability. By addressing these questions within a broader context, future research can build upon the valuable insights gained from this study.

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