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The Impact of Board Diversity (Demographic Attributes) on Risk Disclosure: Conceptual Paper

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Abstract

Risk disclosure has gained increasing importance recently because of its ability to enable management to focus on those risks and manage them in a professional manner. Board diversity has also gained importance recently because board members are the most important oversight tool in entities that monitor and supervise management decisions. Most previous studies have focused on the structural characteristics of boards of directors. The current study highlights the demographic characteristics of boards of directors. So, this study creates a theoretical framework that will help guide future empirical studies that want to look into how they affect risk disclosure, especially in Gulf Cooperation Council (GCC) countries where board members have traits that might not be found in most countries, like royal family directors.

Keywords: Foreign Directors, Royal Family Directors, Overlapping Director Membership, Multiple Directorships, Risk Disclosure, GCC Countries.

Introduction

Globalization and continuing technological advancements have an effect on markets; businesses are ultimately forced to operate in highly competitive, complex, and precarious environments. Because businesses are exposed to so much risk in today's world, along with recent global financial crises and scandals involving corporate managers, academics, standard-setters, accounting associations, investors, and other stakeholders from around the world have called for companies to disclose their risks (Tessema, 2019; Tirado-Beltrán et al., 2020). While management malpractice is one of the causes of corporate failure, it appears that a lack of adequate risk reporting and weak corporate governance are at the root of the problem.

Apart from the aforementioned incidents, the global COVID-19 pandemic, which has heightened global economic fear and uncertainty, is another example of information that investors are curious about regarding the status of their investments. Meanwhile, the occurrences of these incidents have resulted in the downfall of numerous multinational firms,

as well as shattered investors' trust in the business world (Adamu, 2013). As a result, restoring public confidence or faith has become one of the top priorities for today's business leaders (Mgammal, 2017). Moreover, companies are expected to share their risk exposure experiences and the lessons they have learnt over time (ICAEW, 1997).

Overall, the main reasons for corporate collapses are the lack of disclosure and weak corporate governance mechanisms (Downes & Russ, 2005). More specifically, the inadequate risk disclosure, which would enable stakeholders to evaluate a firm's financial robustness or fragility, was deemed the primary factor contributing to the 2007/2008 financial crisis (Al-Maghzom et al., 2016; Ibrahim et al., 2019). In this regard, the demand for corporate risk disclosure has risen dramatically in the aftermath of the global financial crisis of 2007 and beyond (Adamu, 2013; Dobler & Luckner, 2018; Lajili et al., 2021; Ntim et al., 2013), reflecting a common belief that risk reporting prior to the crisis failed to provide stakeholders with sufficient information (ICAEW, 1997). The global financial crises and the collapse of major companies have reignited the debate about the urgent need for effective corporate governance mechanisms to monitor the activities of managers, including risk disclosure.

Risk disclosure is part of disclosure. What distinguishes risk disclosure is that it is more focused than general disclosure. Recognising the importance of corporate risk disclosure began in 1998, when the Institute of Chartered Accountants in England and Wales (ICAEW) issued a discussion paper proposing that companies disclose risk-related information in their annual reports (Ellili & Nobanee, 2017). This kind of information is usually given out in the risk analysis section of the annual report (for example, in the management discussion or the chairman's statement), the interim report, prospectuses, the company website, or any other place where people who read corporate reporting can find the data they need to make informed decisions. The concept of risk disclosure in financial reporting has grown to be essential to market discipline and transparency to reduce information asymmetries that negatively affect stakeholders, especially customers and investors (Abraham & Cox, 2007; Kim & Yasuda, 2018; Linsley & Shrives, 2005; Neifar & Jarboui, 2018). Risk disclosure is the process of identifying, quantifying, managing, and disseminating organisational opportunities and risks that may affect current or future firm value for stakeholders (Adamu & Ivashkovskaya, 2022). According to Hassan (2009), risk disclosure broadly refers to the financial statements that include information about managers' estimates, judgements, and reliance on market-based accounting policies such as impairment, derivative hedging, financial instruments, and fair value. It also includes the disclosure of concentrated operations, non-financial information about corporations' plans, recruiting strategy, and other operational, economic, political, and financial risks. In short, it is the communication of “good” and “bad” information as well as reporting on business “uncertainties”. So, business leaders need to understand how important it is to tell stakeholders about corporate risk; doing so makes businesses more responsible and lowers the chance of agency costs (Tirado-Beltrán et al., 2020).

Risk disclosure may be driven by several factors, such as stakeholders and management. On the one hand, stakeholders may be pushing for more risk disclosure because it has so many benefits, such as making companies more accountable, lowering the cost of capital, keeping investors' trust, and reducing uncertainty about the company. This makes it easier for stakeholders to predict future cash flows and stock prices (Al-Maghzom et al., 2016; Alkurdi et al., 2019; Deumes & Knechel, 2008; Ibrahim et al., 2019; Tirado-Beltrán et al., 2020; Uba,

2024). Besides, it serves as a risk management strategy because organisations that publicly disclose their risks are compelled to formulate an effective risk management plan (Al-Maghzom et al., 2016). As a result, stakeholders are demanding improved organisational risk reporting that enables risk assessment and management, which may reduce the likelihood of future crises (ICAEW, 1997).

On the other hand, risk disclosure is due to the desire of managers seeking social legitimacy and economic consequences. Some contend that managers are predisposed to reveal risk-related information to enhance the corporation's reputation and demonstrate their managerial competencies in risk management to stakeholders (Iatridis, 2008). Furthermore, numerous studies contend that social legitimacy is a fundamental factor influencing the adoption of specific disclosure practices (Hassan, 2009). In this context, managers tend to synchronize the information in their corporations' annual reports with international and/or domestic standards. This alignment allows managers to demonstrate that their corporations embrace cutting-edge practices, thereby securing social legitimacy.

Ensuring that disclosures, particularly risk disclosures, are credible and dependable, enabling stakeholders to make informed decisions, necessitates a robust oversight body governing the management's accountability for these reports. Corporate governance is a critical oversight mechanism that has garnered heightened global attention (Al-Nohood et al., 2024a, 2024b; Al Sanasleh et al., 2025). Corporate governance systems mitigate the agency problem and augment the reliability and credibility of disclosures by requiring management to operate in the best interest of external shareholders; therefore, they enhance information related to the company's risk profile (Kiflee & Khan, 2019).

The board of directors is the most important mechanism of corporate governance (Al-Nohood et al., 2024b; Masulis et al., 2012) and plays an essential and important role in representing and protecting shareholders' interests. Most stock exchanges have focused on corporate boards of directors as key tools for increasing the quality of financial information provided by a company (Karamanou & Vafeas, 2005). The Organisation for Economic Co-operation and Development (OECD) has established guidelines for corporate governance, focusing mainly on boards of directors and the oversight role of directors. A good board of directors can play a major role in achieving good company performance (Hillman et al., 2000). In addition, boards of directors should act as an internal governance and management control mechanism (Shleifer & Vishny, 1997). According to Masulis et al. (2012), the board of directors has two main functions: a monitoring role, i.e., appointing, dismissing, and compensating directors; and the second is an advisory role, i.e., advising managers regarding important strategic decisions. They argued that directors' success in performing these functions indicates that boards of directors are effective in creating shareholder value and assisting in corporate decision-making, including risk disclosure.

Agency conflicts can arise because the managers may have priority to achieve their own goals rather than serve the interests of the shareholders. The board of directors can reduce agency conflicts by using its power to supervise and control managers (Fama & Jensen, 1983). Therefore, it can be said that the board of directors has a crucial role in protecting the best interests of all stakeholders against the self-interests of management (Li et al., 2008). In short, the functions of the board of directors are to ensure the strategic direction of companies, to

monitor management effectively, and to be accountable to the company and its stakeholders. In the GCC countries, the corporate governance codes agree that every company should have a board of directors chosen by its shareholders. Boards of directors are therefore likely to play a vital role in the quality of risk disclosure.

As a result, most of the recent rules and changes to corporate governance have been focused on the board of directors' make-up, including things like size, independence, and diversity, as a key way to improve standards of corporate governance (Ullah, Wang, et al., 2019). Board diversity is sought mainly for two reasons: economic factors and social considerations. There is a global demand to diversify boards of directors (Mansour, Al Zobi, Altawalbeh, et al., 2024; Mansour, Al Zobi, Saleh, et al., 2024; Terjesen et al., 2016), especially following recent corporate crises, including Lehman Brothers, Glitnir, and Dynegy, which have led to increased scrutiny of boards of directors' decisions and composition. The corporation must have a more diverse boardroom in the current business environment, as it provides diverse views and opinions (Haque & Ntim, 2020). Boardroom diversity denotes the differences among board members in terms of education, nationality, gender, ethnicity, age, and experience (Khatib et al., 2023). Khatib et al. (2023) indicate that board diversity is an essential determinant of company success, performance, shareholder protection, and board effectiveness.

GCC, as developing countries, are not immune from the aforementioned events. Indeed, the 2004 Reports on the Observance of Standards and Codes (ROSC) recommended that the countries should focus on the implementation of corporate governance rules by companies, particularly those related to disclosure provisions. Hence, the GCC countries have tried to develop the quality of financial reporting by enacting laws that require all listed companies in the GCC countries to disclose information about all their activities, including those related to risk. This is considered a mechanism to assist regulators, investors, financial analysts, authorities, and other stakeholders in their decision-making processes. The Corporate Governance Code in the GCC countries includes rules that define the general framework of corporate responsibilities. These contribute to improving the regulations related to the composition of the board of directors, the quality of disclosures, protecting the interests of various stakeholders, and increasing transparency and accountability in financial reports (Eulaiwi et al., 2016).

Recently, board diversity—particularly in terms of demographic attributes—has become a critical area of interest in corporate governance, especially for its potential influence on transparency and risk disclosure. As organisations face increasing scrutiny from stakeholders and regulators, understanding how factors such as foreign directors, royal family affiliations, overlapping memberships, and multiple directorships affect disclosure practices is essential. Despite growing attention to board composition, there remains a conceptual gap in linking these specific attributes to the quality and effectiveness of risk communication. This study aims to address this void by developing a theoretical framework that highlights how board demographic diversity can shape firms' risk disclosure behaviour. The topic holds significant relevance for investors, regulators, and policymakers who seek to enhance corporate accountability, especially in emerging markets. By exploring this under-researched area, the study contributes not only to academic discourse but also offers practical insights for improving board structures and promoting more transparent governance practices.

Literature Review and Hypotheses Development

Board Diversity (Demographic Attributes) and Risk Disclosure

To improve the quality of information for shareholders, the reliability of financial reports, and the protection against the negative effects of financial crises and agency problems, the authorities in charge of supervision and regulation have taken steps like making new rules and requiring companies to follow accounting standards (Ali, 2014; Cabedo & Tirado, 2004; Hassan, 2014; Mokhtar et al., 2018). More specifically, risk disclosure has become a fundamental component of business disclosure as it enhances transparency and bolsters investor confidence. Firms must disclose their risks and uncertainties to avoid severe damage to their long-term well-being and reputation as a result of their equity being overvalued (Deumes, 2008). The success of the company in avoiding or mitigating insolvencies and bankruptcy's negative consequences depends highly on early detection of their symptoms (Al-Maghzom et al., 2016; Giacosa et al., 2016). Therefore, providing reliable and timely risky information to assess the financial conditions and ensure that the presented information represents the firm's exact position is vital. Board diversity across demographic characteristics is likely to help achieve the quality of risk disclosure.

Foreign Directors

According to agency theory, foreign directors may successfully oversee management by using their expertise and acting as a spokesperson for foreign investors to counteract the interests of the manager. Foreign directors on the board provide further strategies to mitigate adverse managerial effects (Dewayanto et al., 2017). Resource dependence theory perceives foreign board members as strategic assets that enhance access to external resources. Consequently, resource dependence theory necessitates a board of foreign directors to establish ties with the external environment (Ujunwa, 2012). Foreign directors, possessing extensive worldwide contacts with foreign stakeholders, are anticipated to deliver a superior level of transparency and disclosure (Ibrahim & Hanefah, 2016).

Foreign directors possess distinct insights and skills regarding diverse methods pertinent to international markets, which can provide added value for a firm aiming for expansion (Dewayanto et al., 2017). Miletkov et al. (2017) assert that foreign directors are anticipated to be associated with firms that possess a limited pool of qualified local directors, particularly in countries marked by a smaller population, lower educational attainment, and underdeveloped capital markets. The international board members are viewed as a means for transferring control across nations. Companies acquire knowledge of the corporate governance attributes and board of directors' procedures of overseas firms through the experiences of their foreign directors (Iliev & Roth, 2018).

Alshirah et al. (2019) investigated the influence of foreign directors on the enhancement of risk disclosure in the annual reports of publicly listed companies in Jordan. The findings aligned with agency theory and resource dependence theory, which assert that the presence of foreign board members enhances the extent of risk disclosure. Additionally, Du et al. (2017) investigated whether the presence of foreign directors on the board aids in reducing earnings management methods within a sample of Chinese firms. Their findings indicated that earnings management has a substantial negative correlation with the presence and share of foreign directors on the board. Wu et al. (2015) demonstrated that an increased presence of foreign investors improved earnings quality. Jackson (2017) demonstrated that a significant presence of foreign directors on Chinese boards aids in reducing earnings management. Further,

Ibrahim and Hanefah (2016) examined the impact of board diversity on corporate social responsibility disclosure, finding a substantial positive link between the number of foreign directors and corporate social responsibility (CSR) disclosure in Jordan. Conversely, it is not presumed that foreign shareholders outperform domestic shareholders in executing effective activities. Barako and Brown (2008) found that the presence of foreign directors on the board has a negligible impact on voluntary disclosure. It is posited that foreign directors on the board likely advocate for the interests of foreign owners. Consequently, their presence on the board may function as an alternative means to obtain necessary information instead of enhancing disclosure practices.

Based on agency theory, resource dependence theory, and the discussion above, the expectation is that the presence of foreign directors is positively related to the level of risk disclosure. Hence, the following hypothesis is formulated:
H1: There is a positive relationship between foreign directors and the level of risk disclosure.

Royal Family Directors
According to Alazzani et al. (2019), servant leadership theory posits that leaders will serve others, such as employees, communities, and customers. It claims that servant leaders act ethically so that others will follow them. It believes that servant leaders help others achieve their goals because of their ability to see the big picture of society and thus can help others. Servant leaders claim to develop society. It is worth noting that members of royal families may be members of the boards of directors of large companies either 1) to represent their governments in companies that require a government representative or 2) to represent non-controlling owners because they own a limited number of shares or 3) at the desire of the controlling owners with whom they have social ties. Accordingly, royal family members in GCC countries are likely to be leaders and hence the culture of GCC countries is a very suitable environment to test the servant leadership theory (Alazzani et al., 2019). Companies' compliance with legislative and regulatory regulations regarding disclosure policies, specifically risk disclosure, places a significant responsibility on members of the royal family to demonstrate leadership, enhance sustainability, improve board effectiveness, monitor management, and commit to risk disclosure for their entities. In this regard, Alazzani et al. (2019) claimed that companies with members of the royal family on their boards of directors seek to preserve their reputation, avoid violating laws, and adhere to ethical and legal business practices. Consequently, royal family members may implement stricter management oversight and increase reliance on transparency, particularly regarding risk-related information.

Habtoor and Ahmad (2017) indicated that royal family members on the board are important determinants of risk disclosure in Saudi Arabia. They utilised a sample of 307 firm-year observations from 2008 to 2011. Furthermore, Alazzani et al. (2019) demonstrated a positive relationship between royal family directors and corporate social responsibility reporting. They used data drawn from 544 companies from the six GCC countries during the years from 2010 to 2016. However, evidence suggests that there are conflicting viewpoints regarding the participation of royal family members on corporate boards, which substantially affects the selection of board members and the assessment of board independence and quality (Alamri, 2014).
According to a previous discussion, royal family directors in the GCC countries are likely to be

present on the boards of directors of major companies as representatives of their governments or due to their strong social connections. The presence of a member of the ruling family on the boards of directors has several advantages, including protecting shareholders' rights and monitoring management's actions by obligating the management of companies to comply with regulatory and legislative regulations that ensure best practices of corporate governance, high transparency and high-quality disclosure through risk disclosure. Therefore, this study posits the following hypothesis:
H2: There is a positive relationship between royal family directors and the level of risk disclosure.

Overlapping Directors Membership
An overlapping director is an individual who participates in various board committees (Laux & Laux, 2009; Zheng & Cullinan, 2010). The board of directors often has many committees and a restricted number of directors; hence, board members must participate in multiple committees (Zheng & Cullinan, 2010). When the directors, who also participate in the risk management committee, are aware of specific dangers confronting the company, they may be compelled to oversee these risks and ensure extensive disclosure of information on them in their annual reports (Hines & Peters, 2015). The risk management committee is tasked with reviewing, evaluating, and managing risk (Bates & Leclerc, 2009; Krus & Orowitz, 2009). The audit committees are concurrently assigned the same supervisory tasks. Thus, the intersection of these committees may enhance the effectiveness of their members.

The overlapping director could enhance the alignment of committee interests and mitigate conflicts among them (Hoitash & Hoitash, 2009). The overlapping members would enhance oversight of the financial reporting procedures, resulting in superior financial reporting (Zheng & Cullinan, 2010). Furthermore, according to resource dependence theory, the resources derived from the expertise of overlapping members would afford them enhanced access to relevant external information. Moreover, the exchange of information among committee members provides profound insights to these individuals, stemming from their prior experiences on other committees. The directors serving on the audit committee would leverage insights gained from other committees to make informed accounting decisions and enhance their oversight functions within the audit committee (Chandar et al., 2012). However, Liao and Hsu (2013) contend that overlapping responsibilities may diminish directors' focus and the time dedicated to each committee, thereby negatively impacting the committee's monitoring capacity as directors become overcommitted and lack sufficient time to fulfil their obligations within the committees (Ferris et al., 2003; Kalelkar, 2017; Laux & Laux, 2009).

According to agency and resource dependence theories and previous discussions, the overlap of directors' membership in various corporate committees is likely to lead to improved risk disclosure. Therefore, the current study hypothesises the following:
H3: There is a positive relationship between overlapping directors' membership and the level of risk disclosure.

Multiple Directorships
A director who holds positions on several boards is referred to as a multiple director (Ahn et al., 2010; Clements et al., 2015; Ferris et al., 2003; Jiraporn et al., 2008; Stuart & Yim, 2010).

These directors are referred to as "professional directors" (Keys & Li, 2005). Multiple directorships can have both positive and negative effects (Kaczmarek et al., 2014; Kiel & Nicholson, 2006).

Agency theory posits a connection between various departments and the efficacy of corporate governance (Fama & Jensen, 1983). Furthermore, Fich and Shivdasani (2006) asserted that several board members foster favourable associations with the efficacy of corporate governance and financial reporting due to the experience they have acquired from serving on other boards. Similarly, Westphal and Khanna (2003) posited that directors serving on numerous boards may acquire varied experience from members in disparate businesses, and such experiences could enhance board oversight in information sharing.

The advantages of holding several directorships for directors' manifest in enhanced skills and experience (Clements et al., 2015; Ferris et al., 2003; Harris & Shimizu, 2004; Hashim & Rahman, 2011) as well as access to information, knowledge, and networks (Carpenter & Westphal, 2001; Kiel & Nicholson, 2006). A business can profit from engaging experienced, knowledgeable, and well-connected directors on the board since they are more capable of enhancing the board's functionality. Multiple directorships facilitate directors in establishing connections through professional ties with fellow directors, executives, and firms (Beckman & Haunschild, 2002; Hillman & Dalziel, 2003; Kor & Sundaramurthy, 2009; Nahapiet & Ghoshal, 1998).

In addition, Perry and Peyer (2005) provided empirical evidence that multiple directorships of executives are associated with an enhanced firm value. Besides, Masulis and Mobbs (2011) reported that multiple directorships by "inside" directors are positively associated with firm performance and value. Lei and Deng (2014) and Sarkar and Sarkar (2009) also discovered a positive correlation between firm value and the number of independent directorships. In contrast, directors who serve on multiple boards have limited attention capabilities due to time constraints, which may adversely affect their ability to contribute to board decisions. Therefore, they are likely to be negatively associated with the financial outcomes of a firm (Ahn et al., 2010; Fich & Shivdasani, 2006; Méndez et al., 2015). Fich and Shivdasani (2006) found that firms with busy boards which have a majority of directors with at least three directorships are associated with weak corporate governance and poor performance.

Limited prior research has examined the correlation between multiple directorships and risk disclosure. Consequently, the correlation between the two variables remains indeterminate. Therefore, additional research is required to ascertain the correlation between multiple directorships and disclosure, especially regarding risk disclosure. This work is one of the initial investigations to remedy this gap. Hence, the subsequent hypothesis is presented in this study:
H4: There is a positive relationship between multiple directorships and the level of risk disclosure.

Conclusion
The current study aims to encourage researchers interested in the quality of risk disclosure to conduct further empirical research to investigate the extent to which it is affected by the demographic characteristics of board members rather than focusing on the structural

characteristics of boards. More specifically, the current study highlights four demographic characteristics: foreign directors, royal family directors, overlapping directors' membership, and multiple directorships. The current study predicts that board diversity across these four characteristics plays a fundamental role in enhancing the quality of risk disclosure and, consequently, the company's ability to meet challenges.

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The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

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