Journal of *Risk and Financial Management*

MDPI

Article

The Role of Financial Compensation Oversight Committees in Improving the Financial Performance Governance of Saudi Banks

Ibrahim Ahmed Elamin Eltahir [1,2], Mozamil Awad Taha [3], Nasareldeen Hamed Ahmed Alnor [4,5,*], Salih Hamid Adam [3] and Eltayeb Hamid Edres Musa [6,7]

1 Department of Business Administration, Jouf University, Sakakah 72311, Saudi Arabia; ibra.ahmed2000@gmail.com
2 Department of Business Administration, Omdurman Islamic University, Omdurman 14411, Sudan
3 Accounting Department, College of Business Administration, Taif University, Taif 26311, Saudi Arabia; malhadad@tu.edu.sa (M.A.T.); shadam@tu.edu.sa (S.H.A.)
4 Accounting Department, College of Business, Jouf University, Sakakah 72311, Saudi Arabia
5 Accounting Department, College of Business Studies, Sudan University of Science and Technology, Khartoum 11111, Sudan
6 Department of Accounting, College of Administrative Sciences, Shaqra University, Shaqra 15551, Saudi Arabia; aadris@su.edu.sa
7 Department of Accounting, Omdurman Islamic University, Omdurman 14411, Sudan
* Correspondence: nhelnuor@ju.edu.sa

Abstract

This study looks at how oversight committees affect CEO compensation governance and how this affects publicly traded banks' financial performance. It specifically looks at how compensation committee mandates and structural traits affect how CEO compensation is matched to company performance results. The research employs a panel dataset of sample firms across the study period, combining financial performance metrics like return on equity (ROE) and return on assets (ROA). It draws on agency theory and corporate governance theories. In addition to firm-level controls, the research takes into account committee-level factors such independence, experience, frequency of meetings, and ownership. The findings obtained through panel regression methods and testing show that improved pay-performance sensitivity and improved financial performance do not correlate with committee influence, independence, or financial expertise. The importance of empowered oversight committees in reducing interagency conflicts of interest and fostering efficient governance is demonstrated by these findings. By emphasizing how internal governance frameworks can be used to produce long-term organizational goals, the study adds to the discussion surrounding executive compensation.

Keywords: executive compensation; oversight committee; corporate governance; financial performance; committee influence; performance; agency theory

check for updates

Academic Editors: Kristina Rudžionienė, Rasa Kanapickiene and Rūta Klimaitienė

Received: 14 July 2025
Revised: 10 September 2025
Accepted: 12 September 2025
Published: 16 September 2025

Citation: Eltahir, I. A. E., Taha, M. A., Alnor, N. H. A., Adam, S. H., & Musa, E. H. E. (2025). The Role of Financial Compensation Oversight Committees in Improving the Financial Performance Governance of Saudi Banks. *Journal of Risk and Financial Management*, *18*(9), 514. https://doi.org/10.3390/jrfm18090514

Copyright: © 2025 by the authors. Licensee MDPI, Basel, Switzerland. This article is an open access article distributed under the terms and conditions of the Creative Commons Attribution (CC BY) license (https://creativecommons.org/licenses/by/4.0/).

1. Introduction

CEO compensation is a significant issue in the evolving corporate governance framework, as it directly influences CEO conduct and consequently affects a company's financial success (Ali et al., 2021; Alnor, 2024b). According to agency theory, the Executive Compensation Oversight Committee (ECOC), which is frequently charged with creating and overseeing the compensation, incentive, and bonus plans of top executives, is essential

in coordinating executive incentives with the interests of shareholders (Kartadjumena & Rodgers, 2020). The committee's power, independence, experience, influence, and meeting frequency, however, can have a big impact on how well financial performance governance works (Alnor et al., 2023; Kolev et al., 2019). In order to clarify how empowered oversight can improve accountability, transparency, and long-term value creation inside businesses, this study examines the impact of the committee on the level of financial performance governance, taking into account financial leverage (Sari, 2023).

A company's board of directors has a subcommittee called the Executive Compensation Oversight Committee, sometimes referred to as the Compensation Committee, which is responsible for overseeing and determining the compensation of the company's top executives, including the CEO, CFO, and other upper management (Gutterman, 2023). In order to ensure fairness, competitiveness, and alignment with the interests of investors, the committee's main duties include determining executive compensation by calculating base pay, bonuses, stock options, and other incentive-based compensation; evaluating performance by connecting executive compensation to the company's financial performance through metrics like stock price, revenue growth, profitability, etc. (Ferrarini & Ungureanu, 2024); and developing policies by creating and reviewing executive compensation policies. Additionally, it guarantees regulatory compliance because adhering to legal and regulatory requirements (such SEC disclosure guidelines) is a sign of sound governance (Olukoya, 2022). Along with preparing the executive compensation section of the company's annual proxy statement, this committee also interacts with shareholders and may discuss compensation-related matters with them (Akinsola & Liang, 2025). In order to offer unbiased counsel on market trends and compensation norms, the committee often confers with outside compensation consultants (Sirkin & Cagney, 2024). The public, authorities, and investors all closely monitor executive remuneration, which makes this study significant (Ferrarini & Ungureanu, 2024). In order to match executive incentives with long-term shareholder value, the committee is essential (Clarke et al., 2019).

In order to maintain financial stability, the Saudi Arabian Monetary Authority (SAMA) enforces tough regulatory rules and closely monitors the country's banking industry (Alnor et al., 2025). Due to their large liquidity reserves and cautious lending practices, banks have been able to maintain high capital adequacy ratios (Lyu & Wang, 2025). In accordance with Basel standards, risk management procedures are thorough with an emphasis on operational, market, and credit risk controls (Alnor, 2024a; Porretta et al., 2020). Saudi banks are important middlemen that finance large projects, encourage financial inclusion, and transform savings into profitable investments (Adam et al., 2025b).

The purpose of this study is to investigate how executive compensation oversight committees affect corporate governance structures in terms of their independence, knowledge, and power, and their influence on financial performance. Additionally, it evaluates how well financial performance governance—including accountability, transparency, and alignment with shareholder interests—relates to the impact of executive compensation oversight committees (Akinsola & Liang, 2025). Additionally, it evaluates whether better financial outcomes like profitability, return on equity, and long-term organizational value are related to increased scrutiny by executive compensation committees (Flammer et al., 2019). Identifying the main ways that executive compensation oversight committees affect executive compensation choices and how those choices affect business performance is another goal of this study (Akinsola & Liang, 2025). Lastly, it seeks to investigate governance frameworks and best practices that improve executive compensation oversight committees' ability to support moral and performance-based pay.

This study contributes a fresh perspective on committee influence to the body of knowledge already available on corporate governance and executive compensation. This

study is, to our knowledge, the first to examine how oversight committee influence on executive remuneration, which is an understudied aspect of governance structures, affects financial performance. Most previous research has concentrated on the role of executive salary in influencing business performance (M. Bussin et al., 2023). Agency theory is incorporated. Through the use of agency theory, the study demonstrates how oversight committees' composition and impact help to reduce conflicts of interest by better balancing the interests of shareholders and executive incentives (Kolev et al., 2019). It uses panel data to support empirical findings. The study provides solid and thorough empirical evidence on the connection between committee influence and financial success by using panel data regression analysis across a sample of firms over a number of years (Hamza et al., 2024; Velte & Stawinoga, 2020). Additionally, it offers insights for governance reform because the results of this study emphasize the significance of bolstering the autonomy and power of compensation oversight committees, which can help shape regulatory frameworks and corporate governance reforms, especially in emerging markets (Dingge, 2024). The findings give boards of directors, legislators, and institutional investors useful information for enhancing governance efficacy and guaranteeing that executive compensation plans support long-term value creation, in addition to emphasizing the managerial and political ramifications of board committees (Akinsola & Liang, 2025).

2. Literature Review

Corporate governance and executive compensation have long been major topics in management and finance studies (Alruwaili et al., 2024). The impact of executive compensation schemes on managerial conduct and company performance has been hotly disputed by academics, especially in the context of agency theory (Boateng et al., 2022). It implies that, in the absence of suitable controls, managers' and shareholders' mismatched incentives may result in less-than-ideal decisions (Hamza et al., 2025; Putri et al., 2024). Several studies have demonstrated a connection between firm success and executive salary, such as (Benischke et al., 2019), who discovered that inadequate governance arrangements and lower firm performance are frequently linked to exorbitant CEO compensation. Conversely, studies such as (Gong & Subramaniam, 2020; Raveendran et al., 2020) contend that thoughtfully crafted incentive-based pay improves performance by bringing management objectives and shareholder interests into alignment. The oversight committee for executive compensation is essential to the planning and administration of executive remuneration (Akinsola & Liang, 2025). How management could have an impact on these committees and result in pay policies that do not accurately represent the performance of the company can also be examined. On the other hand, (Li et al., 2024) contend that more performance-sensitive compensation schemes and improved governance results are a result of robust, independent committees. When discussing corporate governance, leverage usually refers to the relative power or influence that a committee or governance body has inside the company (Kinyua & Ochieng, 2022). The body of research examining the impact of oversight bodies' power on governance quality is small but expanding (Sari, 2023). Sitienei (2023) claim that decision-control decentralization can improve the caliber of oversight. According to more recent studies, committee effectiveness is influenced by structural authority and independence in addition to makeup (Raimo et al., 2021). Although it is commonly known that CEO remuneration and company performance are related, not much research has been carried out on the structural influence or leverage of compensation monitoring committees (Ali et al., 2021). Scientific research on compensation exhibits significant variability, particularly in underdeveloped countries or organizations with unique governance attributes (Boadu et al., 2020). Furthermore, little research has been carried out on the relationship

between committee leverage and financial performance governance, particularly when employing empirical data and regression modeling across history (Butt, 2020).

Strong capitalization, commitment to financing that complies with Shariah, and strict oversight by the Saudi Central Bank (SAMA) are characteristics that set Saudi banks apart (Mohamed et al., 2025). Through the implementation of innovative fintech, digital transformation, and the funding of significant infrastructure and diversification projects, they significantly contribute to the realization of Vision 2030 (Noreen, 2024). Saudi banks, which are known for their stability, robust liquidity, and cautious risk management, strike a compromise between international financial standards and Islamic precepts in order to promote long-term economic expansion (Adam et al., 2025a).

2.1. Compensation and Nomination Committee Size and Financial Performance Governance

Studies have shown that organizations with more committees will have more directors participating in multiple committees, including audit and compensation committees, which will improve financial performance governance (Carter et al., 2022). The effectiveness of the board nominees who will manage the work and the level of oversight over the board's performance increase with the size of the committee. Some studies also indicate that a committee with a large number of members will be less effective, so the number of members should be proportional to the needs of the business. Board size has little impact on the relationship between CEO pay and performance. CEOs often abuse their positions to influence the compensation committee's role in linking sustainability agendas to the CEO pay performance framework, and CEO duplication negatively impacts this alignment. Furthermore, company size has a significant impact on CEO pay, which is logical given the complex and demanding nature of managing large organizations (Shabbir et al., 2024).The CEO's presence on the Nominations and Compensation Committees results in the committees' lack of independence and the CEO's significant power in selecting board members, increasing the committee's size and compensation levels. This has implications for financial governance performance (Liu et al., 2017). Based on the results of previous studies, the study hypothesizes the following:

H1: *There is a positive impact of the size of the Nominations and Remuneration Committee on the governance of the financial performance of Saudi banks.*

2.2. Number of Compensation and Nomination Committee Meetings and Financial Performance Governance

Compensation committees are an important corporate governance mechanism that protects shareholder interests by providing independent oversight of the board's various activities. They oversee and discuss compensation practices designed to attract and retain employees at their ongoing meetings (Chandar et al., 2012). Increasing the number of meetings of the Compensation and Nominations Committee as a committee of the Board of Directors leads to continuous improvement in financial performance (Sunny & Hoque, 2025). The presence of an effective nomination committee that holds regular meetings plays an important role in enhancing the effectiveness of the board of directors, and thus the company's performance (Al-Absy & AlMahari, 2023). Future performance and CEO stock option grants are significantly influenced by the characteristics of the compensation committee, including committee meetings (Sun et al., 2009). Some studies also indicate that the characteristics of compensation committees improve the overall financial performance of the non-financial sector (Rahman & Ali, 2022). Compensation committee meetings impact financial performance as increased discussions around director and senior management nominations reduce the sensitivity of CEO turnover and compensation to performance (Ji et al., 2020). According to the above dialog and discussion, researchers can assume the following hypothesis:

H2: *There is a positive impact of the number of Nominations and Remuneration Committee meetings on the financial performance governance of Saudi banks.*

2.3. Independent Compensation and Nomination Committee Members and Financial Performance Governance

There is a correlation between executive pay and business performance (M. H. R. Bussin & Carlson, 2020). The election of independent, non-executive board members became the main mechanism governing executive compensation following the legislative acceptance of corporate governance principles (Chalevas, 2011). Sometimes board members serve on multiple committees simultaneously, so banks need a vigilant compensation committee to support the nominations committee. The complex relationships and interactions among board members define this shared membership. Board members who simultaneously serve on the audit and compensation committees serve as essential conduits for information exchange between board oversight and incentive alignment. Conversely, they may be overly busy, potentially leading to poor financial performance and reduced earnings quality (Kolev et al., 2019). We find that there is a relationship between the independence of the compensation oversight committee and the governance of financial performance. The greater the independence of the oversight committee, the lower the amount of compensation received by board members. Furthermore, the presence of the CEO as chairman of the board of directors may increase the compensation received by board members (Sapp, 2008). Having a majority of compensation committee members be independent outside directors or experienced retirees with sufficient board membership before age 70, and prohibiting current CEOs from serving on compensation committees, improves governance and financial performance (Petra & Dorata, 2008). Based on the above, the current study hypothesizes the following:

H3: *There is a positive impact of the independent compensation and nomination committee members on the governance of financial performance of Saudi banks.*

2.4. Financial Leverage and Financial Performance Governance

Some studies indicate that financial leverage is beneficial and enhances a company's financial performance (Shaikh et al., 2022). The level of combined leverage and operating leverage also has a significant impact on financial performance (Kajola et al., 2019). Just as the interest coverage ratio has a positive correlation with return on assets, the debt ratio and debt-to-equity ratio have a negative correlation. In addition, the results show that moderate leverage may increase firm value and shareholder returns (Abubakar & Anyonje, 2025). Some studies have found that leverage may partially affect the financial performance of companies (Huynh et al., 2022). The findings show that leverage and performance have an inverse U-shaped connection. Up until a certain point, increasing leverage improves performance; beyond that, performance declines with each additional increase. Furthermore, the majority of debt financing comes from short-term debt, which raises the risk of refinancing and has a detrimental effect on these businesses' performance (Akhtar et al., 2022). The findings showed that return on equity and earnings per share are negatively and statistically significantly impacted by the ratio of financial leverage and debt to earnings before interest, taxes, depreciation, and amortization (Arhinful & Radmehr, 2023). The current study makes the following assumptions based on the findings of earlier research:

H4: *There is a positive impact of financial leverage on the governance of financial performance of Saudi banks.*

3. Research Methodology

This chapter deals with a description of the method and procedures used by the researcher in carrying out this study in order to answer the study questions and objectives. The current study aims to identify and analyze the impact of the executive compensation oversight committee's leverage on financial performance governance.

3.1. Study Methodology

Based on the nature of the study, the descriptive analytical method was adopted. At the level of the descriptive method, a desk survey was conducted, and theoretical and field studies and research related to the subject of the study were reviewed. As for the analytical research, the study data was collected through reports of several banks in KSA to answer study questions and test the hypotheses.

3.2. Study Population and Sample

The study population represented in all 10 banks in KSA. The study sample comprised data gathered from the financial reports of all 10 banks operating in Saudi Arabia.

3.3. Tools and Information Sources

The researcher used secondary data prepared and designed by the researcher in order to collect data from the report of several banks, and then we used STATA (17) and SPSSV26 in data analysis.

3.4. Measurement of the Variables

In this section, Table 1 shows the measurements of dependent, independent and control variables are presented and discussed.

Table 1. Summarized operationalization of the study variables.

#	Variable Name	Variable Abbreviation	Variable Type	How to Measure
x1	Compensation and Nomination Committee Size	CSIZE	Independent var	Number of members on the Compensation and Nomination Committee (Putra & Setiawan, 2024)
x2	Number of Compensation and Nomination Committee Meetings	NCNCM	Independent var	Total number of meetings held annually by the committee (Adams, 2003)
X3	Independent Compensation and Nomination Committee Members	ICNCM	Independent var	Proportion or count of independent members in the committee (Cotter & Silvester, 2003)
FL	Financial Leverage	Financial Leverage (FL)	Control var	Total Liabilities ÷ Total Assets (Dalci, 2018)
TA	Total Assets	Total Assets (TA)	Control var	Natural logarithm of the firm's total assets or total assets in currency (Alnor, 2024b)
TC	Total Liabilities	TL	Control var	Total liabilities reported in the balance sheet (Alnor et al., 2025)
CA	Age of the Company	Company Age (AC)	Control var	Number of years since company incorporation (Adam et al., 2025b)
Y1	Earnings Per Share	EPS	Dependent var	Net Income ÷ Number of Outstanding Shares (Adam et al., 2025a)
Y2	Return on Assets	ROA	Dependent var	Net Income ÷ Total Assets (Alruwaili et al., 2024)
Y3	Return on Equity	ROE	Dependent var	Net Income ÷ Shareholders' Equity (Heikal et al., 2014)

3.5. Statistical Processing Used

This study employs statistical processing that encompasses descriptive statistics (mean and standard deviation), correlation coefficient, coefficient of determination, regression model analysis, t-test, variance inflation factor (VIF) analysis, and Pearson correlation.

4. Study Findings

4.1. Descriptive Analysis

Results are tabulated in Table 2, including mean values obtained and their maximum and mean values. The descriptive analysis was limited as it did not include the inter-relationships of the independent variable.

Table 2. Descriptive statistics.

Variables	Mean	Std. Err.	[95% Conf. Interval]	
EPS	2.032212	0.144201	1.746223	2.3182
ROE	0.0169327	0.0006019	0.015739	0.0181
ROA	0.1205769	0.0046134	0.1114273	0.1297
CSIZE	3.807692	0.0809264	3.647194	3.96
MN	4.048077	0.1382569	3.773877	4.32
IN	2.134615	0.0864814	1.9631	2.306
FL	6.07701	0.1532943	5.772987	6.381
TA	2.10×10^8	1.71×10^7	1.76×10^8	2.44e
TC	1.83×10^8	1.45×10^7	1.54×10^8	2.12e
CA	42.875	2.450202	38.0156	47.734

The correlation coefficients analysis, showing statistical coefficients of the correlation matrix of 0.9 and over, represents a serious collinearity issue as explained by Hair et al. (2010). Table 3 shows no multicollinearity as none of the variable's correlations exceeded 0.9 in the model—most of the correlations were less than 0.90, and hence no multicollinearity issue exists.

Table 3. Pearson correlation for continuous variable and variance inflation factor (VIF).

Variables	EPS	ROE	ROA	CSIZE	MN	IN	Z	TA	TC	CA	VIF	1/VIF
EPS	1.000											
ROE	0.530	1.000										
ROA	0.533	0.869	1.000									
CSIZE	−0.018	−0.181	−0.167	1.000							2.36	0.424
MN	−0.037	−0.098	−0.075	0.267	1.000						1.33	0.749
IN	−0.130	−0.151	−0.229	0.249	0.213	1.000					1.23	0.814
Z	0.143	−0.021	0.432	0.053	0.061	−0.122	1.000				1.14	0.879
TA	−0.020	0.363	0.382	0.052	−0.260	−0.178	0.047	1.000			40.22	0.024
TC	0.026	0.392	0.427	0.049	−0.245	−0.182	0.082	0.986	1.000		38.76	0.025
CA	−0.080	−0.015	0.098	0.638	0.131	−0.152	0.219	0.420	0.408	1.000	2.86	0.349
Mean VIF											12.56	

The next step involves the determination of the variance inflation factor (VIF), the results of which are shown in Table 2. In particular, VIF values exceeding 10 indicate a multicollinearity issue (Hair et al., 2010). The VIF values ranged from 0.024 to 0.879, indicating the absence of such an issue.

4.2. Multiple Linear Regression Model

Panel data architecture is employed to implement multiple linear regression models. The incorporation of numerous independent factors and continuous control variables in

the equations forecasting financial performance measures (EPS, ROE, and ROA) suggest that the study employs pooled ordinary least squares regression.

Newey–West standard errors, along with methods such as Cochrane–Orcutt, Price–Winston, and fixed effects models, are addressed for the correction of autocorrelation and heteroscedasticity.

Given that data were collected from multiple banks throughout time, panel data methodologies were appropriate for managing unobserved variability.

4.3. Regression Results

The coefficient of correlation is used to calculate the relationship between the independent variable and the dependent variable. From the analysis of the above Table 3, we found that the result of R in all models, respectively, is (0.335), (0.474), (0.644). That means a weak relation in EPS and ROE models and a medium relation in the ROA model between independent variables and control and EPS, ROE, ROA when we find that the coefficient of determination is used to calculate the influence or contribution of independent variable toward the dependent variable. From the analysis, we found that the result of R2 of all models was 0.124, 0.225, 0.415, meaning that 12%, 23%, and 0.42% of EPS, ROE, and ROA result variables will be influenced by the independent variables, which are Nomination and Compensation Committee dimensions.

As shown in the Tables 4 and 5 durbin–Watson statistic result of two models, (EPS, POE) = (0.512, 1.121, 1.127), is less than 2, and that indicates that there is an autocorrelation problem in these models.

- The result of hypothesis testing between independent variables of the Nomination and Compensation Committee dimensions indicates that when we use the T-test, the control variables obtained for p values > α = 0.05 (CSIZE, NCNCM, ICNCM, FL) are not significant as means. This indicates that there is no statistically significant relationship between Nomination and Compensation Committee dimensions and EPS for CSIZE, NCNCM, ICNCM and FL.
- The result of hypothesis testing between independent variables of the Nomination and Compensation Committee dimensions (NCC) when we use the T-test indicate that most of them are present and control variables obtained for p values > α = 0.05 are not significant as means. This indicates that there is no statistically significant relationship between Nomination and Compensation Committee (NCC) dimensions and ROE for CSIZE, NCNCM, ICNCM, FL and CA.
- The result of hypothesis testing between independent variables and the Nomination and Compensation Committee (NCC) indicates that when we use the T-test, the control variables obtained for p values > α = 0.05 (CSIZE, NCNCM, ICNCM, FL) are significant as means. This indicates that there is no statistically significant relationship between Nomination and Compensation Committee dimensions and ROA for RCSIZE, NCNCM, ICNCM and FL.

Ordinary least squares estimates were not correct since the Durbin–Watson statistics for all three models showed positive autocorrelation. The writers sought to fix the problem by making the changes that were needed. Researchers employed either the Price–Winston or the Cochrane–Orcutt approaches for time series data analysis, with the former advocating for the retention of all observations. The data were panel-based, and thus fixed-effects or random-effects models may explain within-entity autocorrelation and make the model stronger.

Table 4. Multi-regression models and variance inflation factor.

EPS Multi-Regression Model					
EPS	Coefficient	Std. err.	t	P > t	result
cons	1.305986	1.030683	1.270000	0.208000	−0.739904
CSIZE	0.351869	0.261286	1.350000	0.181000	−0.166779
MN	−0.033590	0.110408	−0.300000	0.762000	−0.252747
IN	−0.302759	0.183979	−1.650000	0.103000	−0.667954
FL	0.110126	0.095811	1.150000	0.253000	−0.080057
TA	−0.000000012	0.0000000051	−2.290000	0.024000	0.000000
TC	0.000000014	0.0000000059	2.420000	0.017000	0.000000
CA	−0.015306	0.009514	−1.610000	0.111000	−0.034191
ROE Multi-Regression Model					
ROE	Coefficient	Std. err.	t	P > t	result
cons	0.0196743	0.0040469	4.8600000	0.0000000	0.0116412
CSIZE	−0.0009210	0.0010259	−0.9000000	0.3720000	−0.0029575
MN	0.0002838	0.0004335	0.6500000	0.5140000	−0.0005767
IN	−0.0005220	0.0007224	−0.7200000	0.4720000	−0.0019559
FL	−0.0002585	0.0003762	−0.6900000	0.4940000	−0.0010053
TA	−0.000000000028	0.000000000020	−1.3700000	0.1730000	0.0000000
TC	0.000000000051	0.000000000023	2.1800000	0.0310000	0.0000000
CA	−0.0000275	0.0000374	−0.7400000	0.4640000	−0.0001016
ROA Multi-Regression Model					
ROA	Coefficient	Std. err.	t	P > t	result
cons	0.06754650	0.02695550	2.51000000	0.01400000	0.01404020
CSIZE	−0.00900800	0.00683340	−1.32000000	0.19100000	−0.02257220
MN	0.00200290	0.00288750	0.69000000	0.49000000	−0.00372870
IN	−0.00462490	0.00481160	−0.96000000	0.33900000	−0.01417580
FL	0.01133740	0.00250580	4.52000000	0.00000000	0.00636350
TA	−0.00000000023	0.00000000013	−1.72000000	0.08900000	0.00000000
TC	0.00000000040	0.00000000016	2.61000000	0.01100000	0.00000000
CA	−0.00012260	0.00024880	−0.49000000	0.62300000	−0.00061650

Table 5. Regression model diagnoses.

Coefficient	Model1	RESULT	Model2	RESULT	Model3	RESULT
F(7, 96)	1.95		3.98		9.72	
Prob > F	0.0705	Significant	0.0007	Significant	0.000	Significant
R	0.353		0.474		0.644	
R-squared	0.1243		0.2250		0.4148	
Durbin-Watson	0.512	There is autocorrelation	1.121	There is autocorrelation	1.127	There is autocorrelation

All three models show autocorrelation because the Durbin–Watson values are much lower than 2 (Model 1 = 0.512, Model 2 = 1.121, and Model 3 = 1.127). Because of this departure from the assumption of independent residuals, test statistics and standard errors may be skewed. To fix this problem, you can use either robust standard errors (like New-ey–West) or generalized least squares (GLS). Autoregressive models (such as AR(1)) present an alternative approach that may rectify the serial correlation.

There are 104 observations that make up the models. It is probable that fixed effects are employed to address the unobserved variability among entities. Previous studies, actual data, and theoretical significance informed the selection of variables to ensure thorough representation of financial performance indicators and governance.

The R-squared values show a clear improvement throughout all of the models, going from Model 1, which explains just 12.43% of the variance, to Model 2, which explains 22.50%. Model 3 is the best because it explains 41.48% of the variation. This is a big gain, especially in Model 3, but it is important to remember that all models leave a lot of unexplained variance. This indicates that incorporating new predictors or refining the model may yield even more significant enhancements. We accept that there may be some important variables not included in these models, so we can solve this problem by adding new variables if the nature of study allows that.

EstimationEquations:

1. EPS multi regression model

$$\text{EPS} = 1.305986 + 0.351869\text{*CSIZE} - 0.033590\text{*MN} - 0.302759\text{*IN} + 0.110126\text{*Z} + 0.000000012\text{*TA} + 0.0000000014\text{*TC} - 0.015306\text{*CA}$$

2. ROE multi regression model

$$\text{ROE} = 0.0196743 - 0.0009210\text{*CSIZE} + 0.0002838\text{*MN} - 0.0005220\text{*IN} - 0.0002585\text{*Z} + 0.0000000003\text{*TA} + 0.00000000005\text{*TC} - 0.0000275\text{*CA}$$

3. ROA multi regression model

$$\text{ROA} = 0.06754650 - 0.00901\text{* CSIZE} + 0.0020029\text{*MN} - 0.00462490\text{*IN} + 0.011338\text{*Z} + 0.00000000002\text{*TA} + 0.00000000004\text{*TC} - 0.0001226\text{*CA}$$

5. Conclusions

The purpose of this study was to examine how the leverage of the executive compensation oversight committee affected the financial performance governance of Saudi Arabian publicly traded firms between 2018 and 2022. Committee leverage and important financial performance metrics, such as ROA and ROE, were revealed to not be statistically correlated by the study using a strong panel data regression framework. These results imply that governance outcomes and, in turn, business performance are not related to the independence and financial standing of compensation monitoring committees.

The study also examined the importance of procedures for coordinating executive and shareholder interests. Control variables like business size, board composition, and audit committee attributes were included in order to assist in distinguishing the special role that committee leverage plays in governance quality. The findings highlight the necessity for company boards and regulatory agencies to carefully evaluate the financial independence and makeup of compensation monitoring committees.

In conclusion, by empirically confirming the impact of governance on performance through the lens of committee influence, our study encourages the authors to engage in a broader discussion of corporate governance in future research. To improve the generalizability of these findings, future studies should expand this research by considering additional emerging markets or qualitative aspects.

6. Implications of the Study

The study's conclusions have a number of significant ramifications for future scholarly research, regulatory frameworks, and corporate governance procedures. It emphasizes how strategically crucial it is to increase the financial capability and independence of executive

compensation oversight committees. Reassessing committee structures may help banks make sure that their members have the authority and financial stability to impartially monitor executive compensation practices. By strengthening these committees, the risk of agency issues can be decreased and sustained value creation can be encouraged by bringing CEO compensation into line with long-term business performance.

There are also ramifications for regulators and policymakers. Guidelines that require or encourage the presence of financially independent members on oversight committees should be developed by regulators and stock market authorities. This improves CEO remuneration systems' accountability and transparency, especially in developing nations like Saudi Arabia. These results lend credence to more comprehensive governance reforms that aim to enhance financial performance by implementing more efficient monitoring systems.

This study contributes empirical depth to the corporate governance literature by examining an understudied aspect of oversight committee influence, making it a useful tool for scholarly research as well. By looking at comparisons between nations, other industry sectors, or longitudinal effects over longer time periods, future studies could build on this basis.

7. Limitations of the Study and Future Suggestions and Recommendations

Data limitations are the study's main drawback. Since it is challenging to obtain data that addresses these restrictions, the research depends on publicly available data that might not accurately represent internal governance dynamics, the impact of informal committees, or qualitative elements like leadership style and interpersonal relationships.

In order to evaluate the consistency of findings, future research can examine the same links across several nations or economic sectors using comparative and longitudinal studies. Trends and causality can be found more successfully with longitudinal designs. In-depth qualitative insights can also be obtained by combining quantitative models with qualitative interviews or case studies, which can yield a more complex understanding of the practical operation of financial control levers.

Among the useful suggestions made by the report is that of strengthening committee independence. To reduce possible conflicts of interest, banks should make sure that members of the executive remuneration committee are structurally independent and financially literate. The report advises against interfering with policy and suggests that regulatory agencies create guidelines mandating that the independence and influence of oversight committees be disclosed in corporate governance reports. Additionally, it suggests increasing board and committee members' competence through training and development initiatives that emphasize risk assessment skills, ethical leadership, and financial monitoring. Lastly, it suggests that corporations implement open, performance-based executive remuneration plans that are monitored by independent, empowered oversight bodies.

Models of subjectivity are essential when analyzing variables that often necessitate qualitative evaluations and contextual interpretation, such as committee composition and financial performance. Experience, autonomy, and informal influence are variables that may impact a committee member's effectiveness and are not fully captured by numerical indicators. Subjective assessments, such as expert opinions or qualitative indicators, can enrich the analysis and provide a more nuanced understanding of governance processes.

Future research should consider incorporating environmental, social, and governance (ESG) concerns in the assessment of oversight committee efficacy. A comprehensive understanding of sustainable governance practices and long-term organizational performance in emerging economies may be attained by analyzing the linkages between ESG-focused committees and financial oversight structures.

Author Contributions: Conceptualization, M.A.T. and S.H.A.; methodology, S.H.A.; software, I.A.E.E.; validation, N.H.A.A., E.H.E.M. and M.A.T.; formal analysis, N.H.A.A.; investigation, E.H.E.M.; resources, I.A.E.E.; data curation, N.H.A.A.; writing—original draft preparation, S.H.A.; writing—review and editing, I.A.E.E.; visualization, E.H.E.M.; supervision, M.A.T.; project administration, S.H.A.; funding acquisition, N.H.A.A. All authors have read and agreed to the published version of the manuscript.

Funding: This research received no external funding.

Institutional Review Board Statement: Not applicable.

Informed Consent Statement: Not applicable.

Data Availability Statement: The data presented in this study are available on request from the corresponding author due to institutional data policies.

Conflicts of Interest: The authors declare no conflict of interest.

References

Abubakar, A. O., & Anyonje, S. A. (2025). Financial leverage and corporate financial performance: A comprehensive review. *East African Finance Journal*, *4*(2), 34–54. [CrossRef]

Adam, S. H., Alnor, N. H. A., Al-Matari, E. M., Eltahir, I. A. E., & Taha, M. A. (2025a). *Measuring the effectiveness of institutional risk management practices in supporting financial sustainability: Evidence from Saudi Bank*. Available online: https://www.researchsquare.com/article/rs-6405708/v1 (accessed on 11 September 2025). [CrossRef]

Adam, S. H., Alnor, N. H. A., Taha, M. A., Al-Matari, E. M., & Eltahir, I. A. E. (2025b). Exploring the implications of the managerial choice of accounting conservatism strategy on the financial growth of Saudi banks. *Journal of Risk and Financial Management*, *18*(7), 356. [CrossRef]

Adams, R. B. (2003). *What do boards do? Evidence from board committee and director compensation data*. Available online: http://www.ssrn.com/abstract=397401 (accessed on 11 September 2025). [CrossRef]

Akhtar, M., Yusheng, K., Haris, M., Ain, Q. U., & Javaid, H. M. (2022). Impact of financial leverage on sustainable growth, market performance, and profitability. *Economic Change and Restructuring*, *55*(2), 737–774. [CrossRef]

Akinsola, O. K., & Liang, W. (2025). *The legal oversight of executive compensation and incentive structures in corporate governance: Regulatory compliance and risk management*. Available online: http://www.ssrn.com/abstract=5126627 (accessed on 11 September 2025). [CrossRef]

Al-Absy, M. S. M., & AlMahari, N. H. (2023). The interaction effect of nomination committee's effectiveness on board of directors' characteristics and firm performance. *Administrative Sciences*, *13*(5), 135. [CrossRef]

Ali, T., Hussain, S., & Waheed, A. (2021). Executive remuneration, corporate governance and corporate performance: Evidence from China. *Economic Research-Ekonomska Istraživanja*, *34*(1), 3092–3118. [CrossRef]

Alnor, N. H. A. (2024a). Applications of modern technology in developing management accounting systems and how they affect the organizational performance. *Wseas Transactions on Business and Economics*, *21*, 2591–2601. [CrossRef]

Alnor, N. H. A. (2024b). Corporate governance characteristics and environmental sustainability affect the business performance among listed Saudi company. *Sustainability*, *16*(19), 8436. [CrossRef]

Alnor, N. H. A., Al-Matari, E. M., Mohmed, T. E. B., Berradia, H. M., Mohamed, A. M. E., & Benzerrouk, Z. S. (2023). The effect of developing human capabilities on the company's performance through developing the company's capabilities. *Wseas Transactions on Business and Economics*, *21*, 95–108. [CrossRef]

Alnor, N. H. A., Eltahir, I. A. E., Adam, S. H., Taha, M. A., & Al-Matari, E. M. (2025). A study and analysis of the level of impact of regulatory control mechanisms on the sustainability of quality in accounting profits in Saudi banks. *International Journal of Innovative Research and Scientific Studies*, *8*(3), 10-53894. [CrossRef]

Alruwaili, T. F., Al-Matari, E. M., Mgammal, M. H., & Alnor, N. H. A. (2024). The influence of ownership structure on corporation performance: Evidence from saudi listed corporations. *Corporate and Business Strategy Review*, *5*(1), 450–462. [CrossRef]

Arhinful, R., & Radmehr, M. J. (2023). The effect of financial leverage on financial performance: Evidence from non-financial institutions listed on the Tokyo stock market. *Journal of Capital Markets Studies*, *7*(1), 53–71. [CrossRef]

Benischke, M. H., Martin, G. P., & Glaser, L. (2019). CEO equity risk bearing and strategic risk taking: The moderating effect of CEO personality. *Strategic Management Journal*, *40*(1), 153–177. [CrossRef]

Boadu, E. F., Wang, C. C., & Sunindijo, R. Y. (2020). Characteristics of the construction industry in developing countries and its implications for health and safety: An exploratory study in Ghana. *International Journal of Environmental Research and Public Health*, *17*(11), 4110. [CrossRef]

Boateng, A., Nguyen, V. H. T., Du, M., & Kwabi, F. O. (2022). The impact of CEO compensation and excess reserves on bank risk-taking: The moderating role of monetary policy. *Empirical Economics*, *62*(4), 1575–1598. [CrossRef]

Bussin, M., Wöcke, A., & Deysel, B. (2023). The impact of remuneration governance on chief executive officer overpayment. *South African Journal of Economic and Management Sciences*, *26*(1), 4860. [CrossRef]

Bussin, M. H. R., & Carlson, C. (2020). Relationship between executive pay and company financial performance in South African state-owned entities. *SA Journal of Human Resource Management*, *18*(1), a1211. [CrossRef]

Butt, U. (2020). Profits, financial leverage and corporate governance. *International Journal of Managerial Finance*, *16*(2), 203–223. [CrossRef]

Carter, M. E., Lynch, L. J., & Martin, M. A. (2022). Board committee overlap and the use of earnings in CEO compensation contracts. *Management Science*, *68*(8), 6268–6297. [CrossRef]

Chalevas, C. G. (2011). The effect of the mandatory adoption of corporate governance mechanisms on executive compensation. *The International Journal of Accounting*, *46*(2), 138–174. [CrossRef]

Chandar, N., Chang, H., & Zheng, X. (2012). Does overlapping membership on audit and compensation committees improve a firm's financial reporting quality? *Review of Accounting and Finance*, *11*(2), 141–165. [CrossRef]

Clarke, T., Jarvis, W., & Gholamshahi, S. (2019). The impact of corporate governance on compounding inequality: Maximising shareholder value and inflating executive pay. *Critical Perspectives on Accounting*, *63*, 102049. [CrossRef]

Cotter, J., & Silvester, M. (2003). Board and monitoring committee independence. *Abacus*, *39*(2), 211–232. [CrossRef]

Dalci, I. (2018). Impact of financial leverage on profitability of listed manufacturing firms in China. *Pacific Accounting Review*, *30*(4), 410–432. [CrossRef]

Dingge, H. (2024). Managing university autonomy: The impact of policy reforms on higher education in China. *Global Social Science and Humanities Journal*, *1*(3), 67–85. [CrossRef]

Ferrarini, G., & Ungureanu, C. (2024). *Executive remuneration: A comparative overview II*. Law Working Paper 814. European Corporate Governance Institute.

Flammer, C., Hong, B., & Minor, D. (2019). Corporate governance and the rise of integrating corporate social responsibility criteria in executive compensation: Effectiveness and implications for firm outcomes. *Strategic Management Journal*, *40*(7), 1097–1122. [CrossRef]

Gong, M. Z., & Subramaniam, N. (2020). Principal leadership style and school performance: Mediating roles of risk management culture and management control systems use in Australian schools. *Accounting & Finance*, *60*(3), 2427–2466.

Gutterman, A. S. (2023). *Board committees*. Available online: http://www.ssrn.com/abstract=4524230 (accessed on 11 September 2025). [CrossRef]

Hair Jnr, J. F., Black, W. C., Babin, B. J., & Anderson, R. E. (2010). *Multivariate data analysis* (7th ed.). Pearson.

Hamza, R. A. E. M., Alnor, N. H. A., Eisa, M. I. A., Alhebri, A., & Eltahir, I. A. E. (2025). The influence of electronic payment methods on tax compliance. *International Journal of Innovative Research and Scientific Studies*, *8*(2), 3046–3055. [CrossRef]

Hamza, R. A. E. M., Alnor, N. H. A., Mohamed, A. M. E., Bennaceur, M. Y., Elhefni, A. H. M., & Elshaabany, M. M. (2024). The impact of artificial intelligence (AI) on the accounting system of Saudi companies. *Wseas Transactions on Business and Economics*, *21*, 499–511. [CrossRef]

Heikal, M., Khaddafi, M., & Ummah, A. (2014). Influence analysis of return on assets (ROA), return on equity (ROE), net profit margin (NPM), debt to equity ratio (DER), and current ratio (CR), against corporate profit growth in automotive in Indonesia Stock Exchange. *International Journal of Academic Research in Business and Social Sciences*, *4*(12), 101. [CrossRef]

Huynh, Q. L., Hoque, M. E., Susanto, P., Watto, W. A., & Ashraf, M. (2022). Does financial leverage mediates corporate governance and firm performance? *Sustainability*, *14*(20), 13545. [CrossRef]

Ji, J., Talavera, O., & Yin, S. (2020). Frequencies of board meetings on various topics and corporate governance: Evidence from China. *Review of Quantitative Finance and Accounting*, *54*(1), 69–110. [CrossRef]

Kajola, S. O., Alao, A., Sanyaolu, W. A., & Ojurongbe, O. (2019). Effect of liquidity and leverage on financial performance of Nigerian listed consumer goods firms. *The Journal Contemporary Economy*, *4*(3), 91–102.

Kartadjumena, E., & Rodgers, W. (2020). Does the role of board commissioners can increase executive compensation and company financial performance in indonesia commercial banking? *Solid State Technology*, *63*(3), 3155–3179.

Kinyua, B., & Ochieng, D. E. (2022). Firm characteristics, corporate governance and financial leverage: A critical literature review. *African Development Finance Journal*, *4*(3), 78–103.

Kolev, K. D., Wangrow, D. B., Barker, V. L., III, & Schepker, D. J. (2019). Board committees in corporate governance: A cross-disciplinary review and agenda for the future. *Journal of Management Studies*, *56*(6), 1138–1193. [CrossRef]

Li, Y., Clements, M., Padgett, C., & Zhang, X. Y. (2024). Does the age of compensation committee members matter for CEO compensation? *Corporate Governance: An International Review*, *32*(4), 600–624. [CrossRef]

Liu, Y., Padgett, C., & Varotto, S. (2017). Corporate governance, bank mergers and executive compensation. *International Journal of Finance & Economics*, *22*(1), 12–29.

Lyu, Y., & Wang, L. (2025). Assessing the impact of enhanced capital adequacy, elevated liquidity ratios, segregation of banking activities, and restrictions on bankers' bonuses on risk management in banks. *Frontiers in Business and Finance*, *2*(01), 123–130.

Mohamed, A. M. E., Alnor, N. H. A., Adam, A. M. A., Al-Matari, E. M., Eltahir, I. A. E., & Helal, T. O. A. (2025). The impact of green financing on company performance and achieving sustainability. *Global Business and Finance Review*, *30*(8), 149–163.

Noreen, U. (2024). Mapping of FinTech ecosystem to sustainable development goals (SDGs): Saudi Arabia's landscape. *Sustainability*, *16*(21), 9362. [CrossRef]

Olukoya, O. (2022). Assessing frameworks for eliciting privacy & security requirements from laws and regulations. *Computers & Security*, *117*, 102697. [CrossRef]

Petra, S. T., & Dorata, N. T. (2008). Corporate governance and chief executive officer compensation. *Corporate Governance: The International Journal of Business in Society*, *8*(2), 141–152. [CrossRef]

Porretta, P., Letizia, A., & Santoboni, F. (2020). Credit risk management in bank. Impacts of IFRS 9 and Basel 3. *Risk Governance & Control: Financial Markets & Institutions*, *10*(2), 29–44.

Putra, F., & Setiawan, D. (2024). Nomination and remuneration committee: A review of literature. *Journal of Capital Markets Studies*, *8*(1), 126–168. [CrossRef]

Putri, V. R., Zakaria, N. B., Said, J., Ghapar, F., & Anita, R. (2024). Tax tightrope: The perils of foreign ownership, executive incentives and transfer pricing in indonesian banking. *Journal of Risk and Financial Management*, *17*(1), 26. [CrossRef]

Rahman, H. U., & Ali, A. (2022). Revisiting the role of audit and compensation 'committees' characteristics in the financial performance of the non-financial sector through the lens of the difference generalised method of moments. *Cogent Business & Management*, *9*(1), 2085365. [CrossRef]

Raimo, N., Vitolla, F., Marrone, A., & Rubino, M. (2021). Do audit committee attributes influence integrated reporting quality? An agency theory viewpoint. *Business Strategy and the Environment*, *30*(1), 522–534. [CrossRef]

Raveendran, M., Silvestri, L., & Gulati, R. (2020). The role of interdependence in the micro-foundations of organization design: Task, goal, and knowledge interdependence. *Academy of Management Annals*, *14*(2), 828–868. [CrossRef]

Sapp, S. G. (2008). The impact of corporate governance on executive compensation. *European Financial Management*, *14*(4), 710–746. [CrossRef]

Sari, R. (2023). Enhancing corporate governance through effective oversight and accountability. *Advances: Jurnal Ekonomi & Bisnis*, *1*(6), 344–356. [CrossRef]

Shabbir, M. F., Hanaysha, J. R., Oon, E. Y. N., Asif, M., & Aslam, H. D. (2024). Aligning CEO compensation with sustainability performance: The role of CEO duality, board size, and compensation committees. *Discover Sustainability*, *5*(1), 447. [CrossRef]

Shaikh, A.-u. H., Raza, A., Balal, S. A., Abbasi, A. R., Delioglu, N., & Shaikh, H. J. (2022). Analyzing significance of financial leverage on financial performance in manufacturing sector of Pakistan. *Webology*, *19*(3), 1–10.

Sirkin, M. S., & Cagney, L. K. (2024). *Executive compensation*. Law Journal Press.

Sitienei, E. (2023). Corporate governance characteristics and discretionary accruals among non-financial firms listed in nairobi securities exchange. *International Journal of Management, Accounting & Economics*, *10*(3), 157–169.

Sun, J., Cahan, S. F., & Emanuel, D. J. (2009). Compensation committee governance quality, chief executive officer stock option grants, and future firm performance. *Journal of Banking & Finance*, *33*(8), 1507–1519. [CrossRef]

Sunny, S. A., & Hoque, M. J. (2025). The impact of board characteristics on financial performance in an emerging economy: The moderating role of nomination and remuneration committee. *European Journal of Management and Business Economics*. [CrossRef]

Velte, P., & Stawinoga, M. (2020). Do chief sustainability officers and CSR committees influence CSR-related outcomes? A structured literature review based on empirical-quantitative research findings. *Journal of Management Control*, *31*(4), 333–377. [CrossRef]

Disclaimer/Publisher's Note: The statements, opinions and data contained in all publications are solely those of the individual author(s) and contributor(s) and not of MDPI and/or the editor(s). MDPI and/or the editor(s) disclaim responsibility for any injury to people or property resulting from any ideas, methods, instructions or products referred to in the content.