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-RESEARCH ARTICLE-

DOES CORPORATE GOVERNANCE MATTER TO IMPROVE THE FINANCIAL DECISIONS OF TEXTILE SECTOR IN SAUDI ARABIA: MODERATING ROLE OF FIRM SIZE

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─Abstract─

This study aimed to examine the impact of corporate governance mechanisms on the capital structure of publicly listed textile companies in Saudi Arabia, emphasizing the moderating role of firm size. Quantitative data from annual reports spanning 2014-2023 were analysed using a longitudinal design and panel data in STATA. Results from the Fixed Effect model indicated that corporate governance indicators, including board size, composition, remuneration, CEO compensation, and independence, negatively and significantly influenced the capital structure of Saudi textile companies. The study also revealed a notable negative and statistically significant moderating effect of firm size on the relationship between corporate governance indicators and capital structure. Integrating theoretical frameworks with empirical analysis, this research contributes to theoretical understanding and provides practical insights for firms, policymakers, and investors to enhance corporate governance practices and optimize capital structure decisions across diverse organizational contexts. The study concludes by acknowledging its limitations and proposing directions for future research.

Keywords: Capital Structure, Corporate Governance, Firm Size, Textile, Saudi Arabia.

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INTRODUCTION

The strategic selection of capital structure has historically been acknowledged as a pivotal factor influencing risk management, thereby enhancing firm values (Kumar, Sureka, & Colombage, 2020). Corporate governance (CG) assumes a significant role in configuring capital structure (CS) determinations through its impact on managerial conduct and the alignment of shareholder interests (Ahmed, Ali, & Hágen, 2023). Robust CG mechanisms have the potential to elevate transparency, accountability, and risk management, thereby facilitating the cultivation of judicious capital structure decisions (Zeitun & Goaied, 2023). Through the efficient oversight and alignment of incentives, robust instils confidence among investors and creditors, thereby facilitating access to capital markets and reducing financing costs for enterprises (Zeitun & Goaied, 2023). Ultimately, the implementation of sound governance practices has the potential to contribute to firm value creation through the establishment of well-structured and balanced capital frameworks (Kumar et al., 2020). Firm size emerges as a critical factor in reinforcing CG by providing resources for robust governance structures, thereby enhancing internal control systems (Mubeen & Abbas, 2021). Larger enterprises, with their greater scale and resources, are better positioned to attract seasoned directors, institute effective monitoring mechanisms, and adopt governance best practices. Consequently, this enhanced governance, facilitated by firm size, is instrumental in fostering more informed and strategic capital structure decisions (Almashhadani & Almashhadani, 2022). These studies collectively underscore the pivotal role of firm size in augmenting CG, thereby contributing to improved capital structure decisions.

The trade-off theory posits that organizations seek tax benefits against financial distress costs (Javaid, Nazir, & Fatima, 2023). Effective CG plays a crucial role in capital structure decisions, ensuring careful consideration of these trade-offs (Javaid et al., 2023). According to the pecking order theory, firms prioritize internal resources, then debts, and finally equity (Grabinska et al., 2021). Robust CG practices, such as accurate financial reporting and board oversight, enhance the credibility of internal financing sources, reducing reliance on external debt and influencing capital structure choices (Grabinska et al., 2021). Agency theory highlights the divergence of interests between shareholders and managers, influencing optimal capital structure decisions (AA Zaid et al., 2020). These theories emphasize the significance of firm size in board of directors' selection (AA Zaid et al., 2020). A larger firm size often correlates with better governance structures, leading to improved financing decisions and, consequently, better capital structure decisions (Almashhadani & Almashhadani, 2022; Nazara et al., 2023). Thus, firm size serves as a moderating variable between CG and capital structure decisions.

Empirical findings in the existing literature present varied outcomes concerning the direct impact of CG indicators on capital structure decisions. Some studies propose that

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board size affects capital structure by influencing monitoring capabilities and decision-making dynamics within the boardroom (AA Zaid et al., 2020; Javaid et al., 2023). Similarly, the frequency and efficacy of board meetings are theorized to impact capital structure choices by improving communication and oversight (Feng, Hassan, & Elamer, 2020; Ngatno, Apriatni, & Youlianto, 2021; PeiZhi & Ramzan, 2020). Additionally, board remuneration and CEO compensation structures may influence capital structure decisions through their impact on managerial incentives and risk-taking behaviour (Javaid et al., 2023; Miloud, 2022). CEO tenure could also play a role in shaping capital structure by affecting leadership stability and strategic orientation (Ahmed et al., 2023; FA Khatib et al., 2020; Javaid et al., 2023). Conversely, board independence might influence capital structure through sound decision-making (Ahmed et al., 2023; FA Khatib et al., 2020; Javaid et al., 2023). However, the significance of these relationships remains inconclusive. Therefore, recognizing the need for additional variables in these relationships and considering contextual factors and firm-specific characteristics is crucial to gain deeper insights.

The moderating role of firm size in the context of the impact of corporate governance (CG) on capital structure has received limited attention in previous studies. While some research has explored the moderating effect of firm size with other indicators (Murdianingsih, Prayogi, & Handayani, 2022; Nazara et al., 2023), this consideration has been overlooked in the interplay between CG and capital structure. Existing literature underscores the significance of firm size in enhancing CG effectiveness, thereby shaping a more impactful influence on capital structure decisions (Kijkasiwat & Phuensane, 2020). However, empirical studies investigating the moderating effect of firm size in this context are scarce, creating a notable gap in our understanding of the intricate relationship between CG, firm size, and capital structure decisions.

Moreover, prior studies have primarily focused on other countries (Ahmed et al., 2023; FA Khatib et al., 2020; Javaid et al., 2023), with little attention given to the textile sector of Saudi Arabia. In this sector, CG is essential for transparency and accountability, crucial elements for sound financing decisions. Effective CG not only improves investor decisions but also broadens the avenues for funding options (Ahmed et al., 2023). Despite this significance, there is a limited focus in previous literature on the impact of CG on capital structure with the moderating effect of firm size (Khanifah et al., 2020; Mansour et al., 2022). Consequently, the moderating effect of firm size on the relationship between CG and capital structure may be overlooked.

This study investigates the impact of CG on the capital structure of listed textile companies in Saudi Arabia, with a specific focus on the moderating role of firm size. Integrating theory and empirical analysis, we aim to elucidate how

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governance practices influence capital structure choices and how firm size moderates these relationships. Our findings contribute to both theoretical understanding and practical insights for firms, investors, and policymakers. The study is organized into four chapters covering literature review, research methods, data analysis and interpretation, and discussion of findings along with study limitations.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Board Size and Capital Structure

The definition of board size, representing the number of directors, remains a subject of debate with inconclusive results. Some argue, like Zeitun & Goaied (2023), that a small board is effective for better financing decisions, while others, such as Shahid et al. (2020), contend that a larger board is more effective. Empirical studies provide inconsistent findings, with AA Zaid et al. (2020) and Javaid et al. (2023) suggesting coordination problems with larger boards affecting financing decisions. In contrast, FA Khatib et al. (2020) find a positive relationship, asserting that larger boards enhance credibility and reduce information asymmetry, facilitating debt financing. Thakolwiroj & Sithipolvanichgul (2021) report conflicting findings, indicating a negative association between board size and leverage. Despite this, AA Zaid et al. (2020) suggest a weak negative relationship. The impact of board size on capital structure remains a debated topic, necessitating further research for clarity. The study proposes the following research hypotheses,

H1: *Board size significantly influences capital structure.*

Board Meetings and Capital Structure

The board meeting, a crucial official gathering and governing body, serves to deliberate on company issues and provide management solutions (Thakolwiroj & Sithipolvanichgul, 2021). Numerous studies explore the relationship between board meetings and capital structure (CS). Thakolwiroj & Sithipolvanichgul (2021) emphasize the importance of effective board monitoring in influencing financing decisions. PeiZhi & Ramzan (2020) argue that the efficacy of board monitoring impacts managerial actions and a firm's financing choices. Ezeani et al. (2022) find a positive and significant association between board meetings and CS, while Mansour et al. (2022) further affirm this association, suggesting that board meetings play a vital role in reducing debt financing for organizations. This leads to the formulation of the following research hypotheses,

H2: *Board meetings significantly influence capital structure.*

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Board Remuneration and Capital Structure

Board remuneration encompasses compensations provided to directors, including salaries and benefits for their services (PeiZhi & Ramzan, 2020). Feng et al. (2020) indicate that board compensation practices may influence managerial risk-taking behaviour, indirectly affecting CS. Ahmed et al. (2023) observe that executive compensation structures can impact firm leverage by influencing managerial risk aversion. Conversely, PeiZhi & Ramzan (2020) find a negative and significant impact of board remuneration on CS, suggesting that this relationship should be examined in other countries, particularly within the manufacturing sector. Consequently, the study proposes the following research hypotheses.

H3: *Board remuneration significantly influences capital structure.*

CEO Compensation and its impact on Capital Structure

CEO compensation, encompassing salary and other benefits for their leadership and organizational responsibilities, is a key factor (Ahmed et al., 2023). Javaid et al. (2023) empirically show that CEO compensation structures, especially those involving equity-based incentives, impact managerial risk-taking behaviour & CS decisions. Ria's (2023) research emphasizes the role of executive compensation practices in shaping corporate financing choices, asserting that executive compensation significantly influences CS decisions. Mandiri, Rahayu, & Nuzula (2023) find a negative and significant effect of CEO compensation on CS, suggesting this impact should be explored in other developing nations. Building on these discussions, the study formulates the following research hypotheses.

H4: *CEO compensation significantly influences capital structure.*

CEO Tenure and Capital Structure

CEO tenure, representing the time a CEO spends in a company from appointment to resignation, retirement, or removal, has implications for CS decisions (Ahmed et al., 2023). Empirical findings by Zeitun & Goaied (2023) indicate a positive association between CEO tenure and CS, indirectly influencing CS decisions. However, direct empirical studies on the CEO tenure and CS relationship are limited (Özer & Merter, 2023). These studies underscore the potential significance of CEO characteristics in shaping corporate financial policies, prompting a need for further exploration into the specific impact of CEO tenure on CS choices. Authors argue that CEO tenure studies with CS are particularly essential in developing nations (Bazhair, 2023). Building on this discussion, the study formulates the following research hypotheses.

H5: *CEO tenure significantly influences capital structure.*

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Board Independence and Capital Structure

Board independence, denoting the autonomy of the board from internal and external influences, enables them to prioritize shareholders' interests over management or other stakeholders (Alves, 2023). Ria (2023) empirically asserts that board independence enhances monitoring effectiveness, thereby improving corporate governance and potentially influencing CS decisions. Additionally, Abdel-Wanis & Rashed (2023) find an association between board independence and lower leverage levels, suggesting a role in shaping financing choices. However, conflicting findings, such as those presented by Bazhair (2023), suggest that board independence may not consistently result in improved governance outcomes. Despite these inconsistencies, a majority of empirical evidence supports a positive relationship between board independence and CS, underscoring the pivotal role of effective corporate governance mechanisms in influencing financial policies (AA Zaid et al., 2020; PeiZhi & Ramzan, 2020). Building on the preceding discussion, the study formulates the following research hypotheses.

H6: *Board independence significantly influences capital structure.*

Board Composition and Capital Structure

Board composition, encompassing the number of members and their qualifications, collectively shapes the board's capacity for effective governance and strategic guidance (Thakolwiroj & Sithipolvanichgul, 2021). Empirical findings by Tanui & Tenai (2022) suggest that board composition can impact firm value and financial decisions. García & Herrero (2021) find that composition, including expertise and experience, can influence firm performance and governance practices, indirectly affecting CS choices. Conversely, PeiZhi & Ramzan (2020) report a negative and significant impact of board composition on CS. They further recommend exploring the relationship between board composition and CS in developing countries (Javaid et al., 2023). Building on the preceding discussion, the study formulates the following research hypothesis.

H7: *Board composition significantly influences capital structure.*

Corporate Governance, Firm Size and Capital Structure

The existing literature indicates ambiguity in the relationship between corporate governance mechanisms & CS. This underscores the need for further exploration in different contexts. Gürbüz & Bayık (2021) propose that when relationships are unclear, introducing moderating effects in the relationship between corporate governance and CS could provide clarity. Prior research underscores the importance of proper corporate governance mechanisms for larger, listed companies (D'Amato & Falivena, 2020). Corporate governance is deemed a crucial factor influencing companies' financing decisions (Ahmed et al., 2023). Accordingly, board size can serve as a moderating

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variable within the relationship of corporate governance mechanisms and CS. Several studies advocate for the use of firm size as a moderating variable. For instance, Ahmed et al. (2023) find that firm size significantly influences companies' financing decisions when tested as a moderating variable. Similarly, Mubeen, Abbas, & Raza (2022) report that firm size moderates the relationship between market competition and CS.

Moreover, Mubeen et al. (2022) observed that firm size enhances the relationship between board characteristics and firm performance, suggesting potential variations in governance effectiveness linked to firm size. Chijoke-Mgbame et al. (2020) found that firm size influences corporate governance effectiveness, indirectly impacting CS decisions. Wald (1999) demonstrated that firm size can affect board composition and governance practices, subsequently influencing financial policies. Chu (2011) suggested that firm size influences the relationship between corporate governance and firm performance, implying potential variations in incentive structures based on firm size. Additionally, the importance of firm size is underscored in the context of listed companies, where a proper governance structure, including a well-constituted board of directors, is mandated for influencing CS decisions (Salehi, Moradi, & Faysal, 2023; Siregar & Utama, 2008). Studies by Khanifah et al. (2020) and Mansour et al. (2022) argued that firm size impacts governance structures and practices, subsequently influencing financial policies. Given these considerations, it is plausible to assert that firm size can serve as a moderating variable between corporate governance indicators and CS. Consequently, the following hypotheses are formulated.

H8: *Firm size significantly strengthens effect of board size on textile companies' capital structure.*
H9: *Firm size significantly strengthens effect of board meetings on textile companies' capital structure.*
H10: *Firm size significantly strengthens effect of board remuneration on textile companies' capital structure.*
H11: *Firm size significantly strengthens effect of CEO compensation on textile companies' capital structure.*
H12: *Firm size significantly strengthens effect of CEO tenure on textile companies' capital structure.*
H13: *Firm size significantly strengthens effect of board independence on textile companies' capital structure.*
H14: *Firm size significantly strengthens the impact of board composition on textile companies' capital structure.*

Building upon the preceding discourse, the research framework for this study has been delineated, encompassing three distinct types of variables. The independent variable is corporate governance, gauged through seven diverse characteristics, while the moderating variable is firm size. The dependent variable in this framework is capital structure. The conceptualization of these variables is visually depicted in Figure 1.

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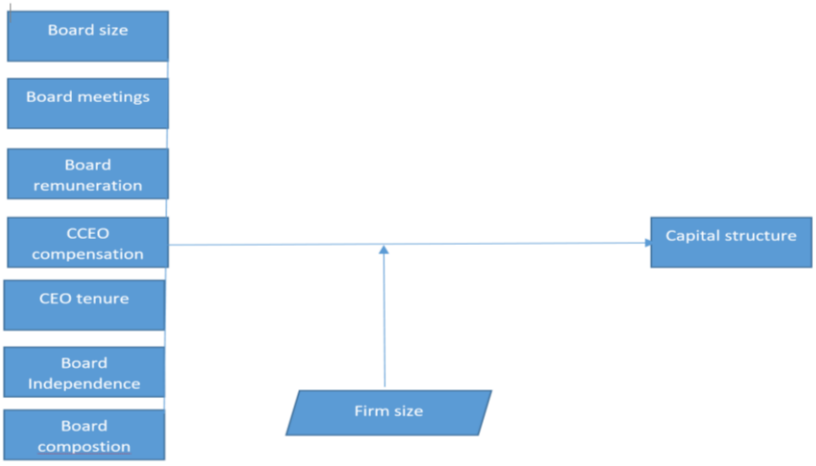

Figure.1: Research Framework.

Methods and Econometric Model

The primary objective of this study was to assess the impact of corporate governance mechanisms on the capital structure of listed textile companies in Saudi Arabia, with a specific focus on the moderating influence of firm size. To achieve this goal, a quantitative research approach was employed, involving the collection of data from the annual reports of 50 listed textile companies in Saudi Arabia over the period 2014-2023. The selection criteria for these companies included major capitalization and a workforce of more than 150 employees, indicating a substantial size (Salehi et al., 2023). Panel data regression analysis was then utilized to examine the collected data. The research design adopted for this study was longitudinal, enabling an exploration of causal relationships and the identification of trends or patterns over time. This approach facilitated a comprehensive understanding of the impact of corporate governance mechanisms (Rindfleisch et al., 2008). Additionally, the study employed an explanatory research approach, seeking not only to establish correlations but also to delve deeper into the underlying mechanisms of these relationships (Echeverria et al., 2018). Two econometric models were formulated to address the research objective.

$$\mathbf{CS} = \beta_0 + \beta_1 BS + \beta_2 BM + \beta_3 BR + \beta_4 CR + \beta_5 CT + \beta_6 BI + \beta_7 BC + \beta_8 GDP + \beta_9 ROA + \varepsilon_{i,t.\mathbf{M\text{-}1)}}$$

$$\mathbf{CS} = \beta_0 + \beta_1 BS + \beta_2 BM + \beta_3 BR + \beta_4 CR + \beta_5 CT + \beta_6 BI + \beta_7 BC + \beta_8 BS*FS + \beta_9 BM*FS + \beta_3 BR*FS + \beta_{11} CR*FS + \beta_{12} CT*FS + \beta_{13} BI*FS + \beta_{14} BC*FS + 15GDP + \beta_{16} ROA + \varepsilon_{i,t.\mathbf{(M\text{-}2)}}$$

Where,

In the context of this academic discourse, the following abbreviations are utilized to represent key variables: BS, BM, BR, CR, CT, BI, BC, GDP, ROA, and FS.

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Table 1: Measurement of Variables.

Variables	Measurements	Source
Total Debt to Assets Ratio	TL/TA	(Ahmed et al., 2023)
Board Size	board of directors numbers	(Wen, Rwegasira, & Bilderbeek, 2002)
Board Meetings	Number of board meeting held in the year	(Ahmed et al., 2023)
Board Remuneration	Board remuneration natural logarithms	(Ahmed et al., 2023)
CEO Compensation	CEO compensation natural logarithms	(Ahmed et al., 2023)
CEO Tenure	CEO employment time for current post	(Berger, Ofek, & Yermack, 1997)
Boards independence	Independent board ratio in whole board	(Wen et al., 2002)
Board composition	Ration of executive directors in the board	(Wen et al., 2002)
Firm Size	Total assets natural log	(Yang & Wang, 2023)
Return on Assets	Net income to total assets	(Wen et al., 2002)
Gross domestic products	Good and services provided in a whole year	(Ifionu & Ibe, 2015)

DATA ANALYSIS AND EMPIRICAL FINDINGS

The data underwent analysis from both descriptive and inferential perspectives. Initially, descriptive statistics were applied, followed by testing the study hypotheses.

Descriptive Results

Table 2 presents the results of the descriptive statistics. The variables considered in this table include firm size as a moderating variable, capital structure as the dependent variable, and return on assets along with gross domestic product as control variables. The corporate governance variables serve as independent variables.

For BS, the results indicate a mean value of 8.22, with a SD of 1.44 and a range between 5 and 11 as minimum and maximum values. BM exhibit a mean value of 5.22, SD of 2.12, with a range from 2 to 17. BC has a mean of 3.54 and an

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SD of 0.72. BR shows an average of 13.48, with a SD of 0.98. CR has a mean of 0.31 and a SD of 0.10. CT averages 14.34 with an SD of 0.89.

In terms of control variables, ROA is reported with a mean of 0.834, SD of 0.061, and a range from -0.53 to 0.80. FS has a mean value of 7.352 with an SD of 0.792, ranging from 5.589 to 9.35 as minimum and maximum values. These results are summarized in Table 2.

Table 2: Descriptive Results.

	OBS	Mean	SD	Min	Max
BS	500	8.22	1.44	5.00	11
BI	500	3.87	1.30	1.00	7.00
BM	495	5.22	2.13	2.00	17.00
BC	490	3.54	0.72	3.00	7.00
BR	480	13.48	0.98	11.30	16.03
CR	480	0.31	0.10	0.04	11.80
CT	470	14.34	0.89	0.49	16.78
ROA	500	0.834	0.061	−0.53	0.80
Lever	500	37.467	0.254	0.234	85.34
FS	491	7.352	0.792	5.589	9.35

Note: BS-board size, BM-board meetings, BR-board remuneration, CR-ceo compensation, CT-CEO tenure, BI-board independence, BC-board composition, GDP-gross domestic product, ROA-return on assets, FS-firm size.

Diagnostics Test

Various diagnostic tests precede hypothesis testing. Firstly, data normality was assessed using the Jarque-Bera test, where a recommended value exceeding 0.05 indicates normality (Saliya, 2022). The results in Table 3 revealed that all values surpassed the recommended threshold, suggesting a normal distribution of the data. Multicollinearity within the model was also examined using Variance Inflation Factor (VIF), typically set at less than 5 or 10 to indicate the absence of multicollinearity (Oke, Akinkunmi, & Etebefia, 2019). Our study confirmed that the independent variables exhibited VIF values of less than 0.5, indicating no multicollinearity issues. These results are succinctly summarized in Table 3.

Following an assessment of predictor multicollinearity, researchers performed a Partial F-Test to gauge the impact of incorporating the moderating variable. This test contrasts the Sum of Squares Error (SSE) between the full model, featuring the moderating variable, and a reduced model without it (Hodson, 2022). The partial least square results revealed an increase in R square value to 0.582 post-moderation, and a decrease in

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residual standard error (RSE) by 1.72 compared to the reduced model, where the initial R Square was 0.5408, and RSE was 1.73 prior to moderation. These outcomes underscore the significance of the moderating effect, improving R square and reducing RSE.

Table 3: Diagnostics Test.

Predictors	Normality Values	VIF
BS	0.3789	2.532
BM	0.2056	2.279
BR	0.1467	2.814
CR	0.4291	1.645
CT	0.3124	2.723
BI	0.5863	2.398
BC	0.2457	2.109
ROA	0.7428	2.906

Note: BS-board size, BM-board meetings, BR-board remuneration, CR-CEO compensation, CT-CEO tenure, BI-board independence, BC-board composition, GDP-gross domestics product, ROA-return on assets, FS-firm size.

Table 4: Unit Root, Heteroscedastic, and Autocorrelation Results.

Variable	Unit Root	
	Statistic	**P Value**
CA	40.74	0.00
BS	42.47	0.00
BM	23.29	0.00
BR	41.23	0.00
CR	61.13	0.00
CT	63.32	0.00
BI	59.45	0.00
BC	23.12	0.00
FS	29.13	0.00
R Square and RSE before moderation	0.458	1.73
R Square and RSE after moderation	0.582	1.72
	P values	
Endogeneity	0.812	
Heteroscedasticity	0.278	0.371
Autocorrelation	0.293	0.281

Note: "*** 99% confidence level, ** 95% confidence level, * 90% confidence level".

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To mitigate potential endogeneity, researchers employed a two-stage least squares (2SLS) approach (Zimon et al., 2021). The recommended threshold for endogeneity determination is typically below 0.05. The test results in Table 4 indicated p-values exceeding 0.05, suggesting a lack of dynamic relationships among the variables. Additionally, a stationary test using the Augmented Dickey-Fuller (ADF) test, where a recommended threshold for stationarity is below 0.05 (Assaf, 2006), showed p-values below 0.05, signifying data stationarity. These results enhance regression efficiency and result precision, thereby bolstering the study's reliability. The summarized outcomes are presented in Table 1.

Empirical Results

Two regression models were employed to test the study hypothesis, revealing the strength of model fitness with R square values indicating a better explanation of capital structure variation in the Saudi Arabian textile sector. The R Square value increased significantly from 0.458 before moderation to 0.582 after moderating, highlighting the impactful moderating effect.

Table 5: Hypothesis Results.

	Direct effect (CS)		Moderating effect (CS)	
Hypothesis	**Coefficients**	**P-value**		
BS	-0.25	0.000		
BM	-0.18	0.023		
BR	-0.12	0.012		
CR	-0.30	0.045		
CT	-0.22	0.032		
BI	-0.15	0.039		
BC	-0.10	0.012		
GDP	-0.08	0.032		
ROA	-0.23	0.023		
BS*FS			-0.32	0.034
BM*FS			-0.23	0.012
BR*FS			-0.18	0.017
CR*FS			-0.37	0.012
CT*FS			-0.32	0.041
BI*FS			-0.19	0.021
BC*FS			-0.29	0.031
R Square	0.45		0.56	
Hausman Test	0.002		0.003	

The Hausman Test results suggested potential endogeneity or correlation between governance factors and the error term, with a p-value less than 0.05, indicating the

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suitability of the fixed model for both. The selected fixed effect results indicated that corporate governance indicators (BS, BM, BR, CR, CT, BI, and BC) had a negative and significant impact on capital structure. This implies that as these governance indicators increase, firms tend to rely less on debt financing and prioritize equity financing, aligning with risk management and transparency concerns in the Saudi textile sector. Moreover, indirect effect results demonstrated a negative and significant moderating effect of FS between corporate governance indicators and the capital structure of textile companies in Saudi Arabia. This suggests that the impact of corporate governance mechanisms on capital structure varies based on the size of textile firms, indicating different preferences for larger firms in response to governance factors compared to smaller firms. These findings are summarized in Table 5.

DISCUSSION AND CONCLUSION

The study aimed to examine the impact of CG mechanisms on the CS of listed textile companies in Saudi Arabia, with firm size (FS) acting as a moderating factor. The panel results revealed a negative and significant effect of board size on the capital structure of Saudi Arabian textile companies. This suggests that larger boards may be linked to lower firm performance, influencing capital structure decisions. These findings align with prior research (AA Zaid et al., 2020; Javaid et al., 2023), indicating a negative relationship between board size and firm performance. Larger boards in organizations are associated with better decision-making in financing activities. Conversely, smaller boards are suggested to lead to favouritism decisions, potentially increasing the ratio of loans (Abdi, Li, & Càmara-Turull, 2022). The current findings suggest that Saudi Arabian textile companies exhibit effective boards with a higher level of independence, contributing to a reduced reliance on debt in their financing. Additionally, the study found a negative impact of board meetings on capital structure, indicating that a higher frequency of board meetings might be associated with lower firm performance and influence capital structure decisions. This aligns with the idea that excessive board meetings may lead to decision-making inefficiencies, particularly if not focused on strategic issues (AA Zaid et al., 2020). Overall, it can be argued that the textile companies in Saudi Arabia have well-structured board meetings contributing to improved financing decisions, emphasizing equity financing over debts.

In addition, board remuneration and CEO compensation also exhibit negative and significant impacts on CS. This implies that when boards receive generous remuneration and CEOs have higher compensation levels, there is an active involvement in financing decisions with a reduced focus on debts (Javaid et al., 2023; Miloud, 2022). Although specific studies on this relationship in the Saudi textile sector are limited, research by Javaid et al. (2023) suggests that excessive executive compensation may signal agency problems and hamper firm performance. In the context of Saudi Arabia, it can be argued that substantial board compensation plays a pivotal role in minimizing organizational debt levels.

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Similarly, CEO compensation shows a negative and significant impact on CS, indicating that higher CEO compensation levels in Saudi Arabian textile companies are associated with decreased debts. This aligns with findings from Javaid et al. (2023) and Miloud (2022), who argue that excessive CEO compensation can lead to agency problems and hinder firm performance in Saudi Arabian firms. Hence, in the Saudi textile sector, firms with higher CEO compensation levels may prioritize equity for growth opportunities, contributing to enhanced financial performance.

Furthermore, CEO tenure exhibits a negative and significant impact on CS, suggesting that longer CEO tenure may be linked to lower firm performance, influencing CS decisions. This aligns with research by Ahmed et al. (2023), FA Khatib et al. (2020), and Javaid et al. (2023), indicating that extended CEO tenure can result in a lack of innovation and strategic renewal, negatively affecting firm performance. Thus, it can be inferred that Saudi Arabian textile companies with longer CEO tenure make financing decisions that lean more towards equity than debts, contributing to improved financial strategies.

Additionally, board independence exhibits a negative and significant impact on CS, indicating that an increase in board independence in companies corresponds to improved financing decisions, favouring equity financing and reducing financial risk. This aligns with findings from various studies (Ahmed et al., 2023; FA Khatib et al., 2020; Javaid et al., 2023), suggesting that excessive board independence may result in decision-making inefficiencies and reduced firm performance. Regarding CS, research by Feng et al. (2020) has demonstrated that firms with higher board independence levels tend to have lower leverage ratios, showing a preference for equity financing. In the Saudi textile sector, companies with lower levels of board independence might adopt more aggressive CS, utilizing debt to pursue growth opportunities and enhance financial performance.

Moreover, the direct impact results reveal a negative and significant effect of board composition on capital structure. This suggests that the composition of the board, especially the presence of executive directors, plays a pivotal role in making financing decisions. These results are in contrast to several studies (Ahmed et al., 2023; FA Khatib et al., 2020; Javaid et al., 2023) where boards with excessive representation from insiders may lead to conflicts of interest and reduced firm performance. Contrary to some studies suggesting that having more executive directors can improve financing decisions, especially in terms of equity (Thakolwiroj & Sithipolvanichgul, 2021), it is argued that in the context of Saudi Arabia, textile companies benefit from a diverse representation of executive and non-executive directors, contributing to well-informed decisions on capital structure.

The results of the indirect moderating effect indicate a negative and statistically significant impact of board size on capital structure when considering firm size as a moderator. This finding aligns with previous studies that have suggested the moderating

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role of firm size in the relationship between board characteristics and financial performance in Chinese firms (Mubeen & Abbas, 2021). They contended that larger firms might encounter heightened agency costs and intricacies, amplifying the influence of board size on CS determinations. Board meetings also exhibit a negative and significant impact on CS, with firm size acting as a moderator. These results suggest that textile companies in Saudi Arabia, characterized by larger firm sizes, tend to enhance their board meetings, contributing to improved financing decisions. This aligns with the findings of a study by Buallay & Hamdan (2019), suggesting that larger firms may necessitate more frequent board meetings to address operational complexities, thereby exerting a more substantial impact on their financing decisions. Furthermore, the relationship between board remuneration and CS is also negatively and significantly moderated by firm size. These results indicate that as firm size increases, the influence of board remuneration on CS becomes more pronounced. The findings align with studies such as Kivaya, Kemboi, & Odunga (2020), proposing that larger firms might provide increased board remuneration to attract and retain skilled directors, consequently impacting performance and improving capital structure decisions.

Moreover, the correlation between CEO compensation and CS displays a negative and significant moderation with firm size, suggesting that the impact of CEO compensation on CS decisions strengthens with increasing firm size. This observation is consistent with studies by Mohammadi Nodeh, Ahmadimousaabad, & Mohammadi Nodeh (2018) and Mubeen & Abbas (2021), contending that larger firms may provide higher CEO compensation to align managerial interests with shareholder concerns. CEO tenure and its relationship with CS in Saudi Arabian textile companies are also negatively and significantly moderated by firm size. As firm size increases, the influence of CEO tenure on CS decisions intensifies, aligning with studies by Nodeh et al. (2016) and Digdowiseiso (2023), indicating a positive association between CEO tenure and firm size that impacts CS decisions through managerial discretion and experience. Additionally, firm size negatively moderates the relationship between board independence and CS, revealing that as firm size increases, the impact of board independence on CS decisions becomes more prominent. This finding corresponds with the argument that larger firms may necessitate a higher degree of board independence to mitigate agency conflicts and enhance corporate governance, consequently influencing their preferences in CS choices. This corresponds with Mubeen et al.'s (2021) assertion that larger firms may necessitate a higher level of board independence to address agency conflicts and enhance corporate governance, influencing their preferences in CS. Furthermore, firm size negatively moderates the relationship between board composition and CS, indicating that as firm size increases, the impact of board composition on CS decisions intensifies. This aligns with Abdi et al.'s (2022) research, suggesting that larger firms benefit from robust corporate governance to access valuable resources and expertise, thereby influencing their choices in CS. In conclusion, based on these findings, it can be inferred that corporate governance indicators are pivotal for textile companies' CS decisions. Additionally, firm

size plays a crucial role in enhancing corporate governance mechanisms, thereby improving CS decisions.

Implication and Future Directions

The study offers valuable insights into the moderating role of firm size between CG & CS in Saudi Arabian textile companies. It emphasizes the need to customize governance practices and CS strategies based on firm-specific characteristics, highlighting a negative moderating effect that strengthens with firm size. This has significant implications for policymakers, corporate boards, and practitioners in the sector. Corporate boards should adjust governance practices based on firm size to optimize financial performance, while policymakers can use these insights to develop tailored regulatory frameworks. Practitioners can leverage these findings to design governance structures and CS strategies aligned with the unique characteristics and growth objectives of Saudi Arabian textile companies, enhancing their competitiveness and long-term sustainability.

The findings of this study present both significant insights and limitations that suggest potential avenues for future research. Firstly, the study's focus on Saudi Arabian textile companies restricts the generalizability of the findings, highlighting the need for future research to explore similar relationships in diverse country contexts. Secondly, by concentrating solely on the moderating effect of firm size, the study provides an opportunity for future research to delve into mediating effects, thereby enhancing the predictive relevance of the study. Lastly, the use of longitudinal panel data in this study introduces a potential limitation, suggesting that future research could employ cross-sectional data to examine variations in results across different time frames.

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