The Impact of Board Gender Diversity and CFO Compensation on Financial Sustainability in China: A Power Distance Perspective

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Abstract: This study focuses on how female diversity on the board and the compensation of the chief financial officer (CFO) affect the long-term financial health of Chinese companies. The focus of the study is on how the cultural factor of power distance affects this relationship. The study uses data from 4,509 Chinese A-share listed companies from 2009 to 2023 and adopts multiple regression analysis to study how gender diversity and CFO compensation affect corporate performance and performance in areas such as governance, finance, and environment (ESG). By controlling for factors such as company size, debt, and revenue growth, the results show that gender diversity on the board and fair CFO compensation mechanisms can significantly affect company survival. Obviously, power distance as a cultural factor will weaken these positive effects, especially in companies with highly concentrated power. The results reveal the importance of incorporating cultural context when formulating corporate governance policies and provide a reference for promoting gender diversity and executive compensation mechanisms to better achieve the company's long-term sustainable development goals.

Keywords: Board Gender Diversity, CFO Compensation, Financial Sustainability, Power Distance Culture.

1. Introduction

Corporate governance has increasingly become a key focus in the areas of corporate strategy and corporate sustainability, especially as companies seek to strike a balance between profitability and long-term value creation [1]. Not only are board gender diversity and executive compensation two important components of corporate governance, they have also been shown to have a significant impact on a company’s profitability and long-term success [2]. In developing countries like China, rapid economic growth is associated with unique cultural factors that warrant special consideration [3]. Hofstede's cultural dimension theory considers China to be a typical example of a country with large power distance, which may change how gender diversity on the board and CFO pay affect the company's ability to stay in business.

A huge number of studies show that societies with greater power distance, stricter hierarchical structures, and more rigid authority may limit the impact of board diversity on the decision-making process. Gender diversity on Chinese boards has a positive impact on company performance, but its effectiveness is constrained by the organizational power structure [4]. Similarly, the compensation of Chinese CFOs is often influenced by cultural expectations of authority, which in turn affects financial decisions [5]. This study aims to explore these complex interactions and provide deeper insights into how corporate governance can promote sustainable financial practices in China.

2. Literature Review

2.1. Board Gender Diversity and Financial Sustainability

Gender diversity on the board means having not only male but also female members on the company's board, which helps in making better decisions, providing better oversight, and improving the company's image [6]. Women directors can bring a more ethical, open and comprehensive perspective to the board's approach to risk management, which is critical to long-term financial health [7]. Environmental, social, and governance (ESG) projects are important for financial sustainability [8], and study shows that boards with a lot of different kinds of people are more likely to take them on [9]. Financial sustainability is a company or business's ability to stay financially healthy and stable over the long term. It can be measured by things like net profit margin, cash flow, debt-to-asset ratio, and so on [1].

In China, where traditional gender roles are deeply rooted, the increase in the proportion of women on boards indicates that governance practices are shifting towards more inclusiveness. It is worth noting that the effectiveness of gender diversity on boards in improving financial sustainability may depend on cultural factors, especially the hierarchical structure of Chinese society, which is reflected in its high power distance index (PDI) [3].

2.2. The relationship between Board Gender Diversity and Executive Compensation especially CFO

The CFO's role in managing financial activities such as budgeting, forecasting, and risk management is critical to a company's financial health and sustainability. CFO compensation includes base salary, bonuses, stock options, and other performance incentives tied to metrics such as revenue growth, profitability, and cost control, so the CFO's interests are closely tied to the long-term stability of the organization [9]. A huge number of literature shows that CEO compensation typically emphasizes stock incentives and corporate growth, tying compensation to shareholder value. which is different from CFO compensation, so it is important to distinguish between the two [10]. Moreover, the CFO's remuneration is mainly based on financial performance and the execution of corporate strategy, emphasizing accounting standards and financial control [11].

A hot topic in the field of corporate governance is the link between the number of women on boards and executive compensation, especially the compensation of chief financial officers. Multiple studies have shown that a mix of men and women on boards indirectly affects executive compensation by influencing corporate policies and decisions. Female leaders bring new ideas and fight for fair, performance-based compensation that focuses on long-term success rather than short-term gains [12].

Additionally, female board members can influence pay policy transparency and align CFO compensation with broader management goals. Tying pay to ESG performance and non-financial metrics is critical for long-term sustainability [13]. Gender-diverse boards can also address pay equity issues by advocating for pay structures that focus on long-term incentives (such as stock options and deferred compensation) rather than short-term bonuses [7][14].

Female directors tend to favor conservative risk strategies, which can discourage aggressive financial strategies that threaten long-term sustainability, as CFOs influence financial management and risk mitigation across the company. [15]. Instead, they prefer compensation structures that reward prudent management, sustainable innovation, and compliance, especially in industries vulnerable to environmental and financial risks [2][16].

2.3. Power Distance as a Moderating Factor

Power distance is a cultural factor that measures how much less powerful people in a society accept and expect that power will be shared unequally [17]. It's possible that dominant hierarchy norms, in which people rarely question authority figures [4], could change how gender diversity on the board and CFO pay affect the company's ability to stay in business. In companies with a high power gap, for instance, even if there are women on the board, they might not be able to have a big impact on decisions because of how the company is set up [17]. So, the good benefits of having a mix of genders on sustainability may be lessened. If, on the other hand, power distance is low and equal and participatory decision-making is more common, female board members may have more freedom to affect corporate strategy, such as choices about long-term financial sustainability [18]. China's high score on the power distance index says that hierarchy has a big effect on how organizations work and how decisions are made.

In the same way, power distance can lessen the effect that CFO pay has on the company's ability to stay in business. CFOs often have to do what strong leaders tell them to do, which may put short-term profits ahead of long-term sustainability in cultures with a high power distance [17]. Even if CFOs are paid based on long-term success, they may not be able to have much of an impact on the sustainability strategies of their companies because of pressures from higher up in the company. In places with low power distance, on the other hand, CFOs may have more freedom to promote and carry out long-term sustainability plans [5].

3. Methodology

3.1. Data Collection

This study gets its information in two ways. First, it uses control variables from the China Stock Market & Accounting Research (CSMAR) database to look at things like board gender diversity, CFO pay, and other financial indicators. Second, it gets its source ESG data from the China Securities Index Company (CSI). A-shares that are traded on the Shanghai and Shenzhen stock markets in China are the stocks that are being targeted. Stocks marked as "ST" (special treatment) are not included in this study because they may change the results of the next analysis. These are stocks that are about to be delisted because of financial trouble or operating problems. There are 4,509 listed companies in the sample time, which runs from 2009 to 2023. The data was cleaned to get rid of companies that didn't meet the criteria. The following theories will be put to the test in the empirical analysis:

H1: Board gender diversity is positively associated with the financial sustainability of Chinese companies.

H2: CFO compensation is positively associated with the financial sustainability of Chinese companies.

H3: Power distance will weaken the positive relationship between CFO compensation and financial sustainability, i.e., the positive effect of CFO compensation is weaker in companies with greater power distance.

3.2. Variable Definitions

The ESG scores and EPS of firms are used to measure its financial sustainability because they show how well the company does in terms of government, ethics, and the environment, as well as its ability to make money. These things are called dependent factors. The number of female CFOs on the board as a percentage of the total number of board members is used as an independent variable in the study. CFO pay is also used as an independent variable. The amount of power gap is shown by how many shares the CFO owns on the board. Return on equity and profits before interest and taxes are used as more signs of financial sustainability for robustness checks.

A leverage ratio is one of the factors that can be changed to affect financial sustainability. Higher leverage ratios hurt sustainability by raising financial risk and making it harder for companies to adapt to economic downturns. The rate of revenue growth is limited because better growth rates show that a company can make more cash in the future, which is good for its long-term health. Tobin's Q shows how the market thinks about the worth of a company's assets compared to how much it would cost to replace them. It's included because it shows how confident investors are in a company's future performance. The book-to-market ratio is controlled because it measures how much a business is worth. Higher ratios may mean that the company is undervalued or in financial trouble, which has an effect on its long-term viability. Lastly, the size of the company is limited. This is because bigger companies have a wider range of products and services and can access more resources, which helps them stay financially stable over the long run. In Table 1, the research shows the meanings of the variables.

Table 1: The variable definitions.

Variables	Full Name of Variable	Description
Dependent Variables		
ESG	Environmental, Social, and Governance Performance	Annual ESG scores assessing environmental, social, and governance practices of a firm.
EPS	Earnings Per Share	Net income earned per share of stock.
ROE	Return on Equity	Net income as a percentage of shareholders' equity.
EBIT	Earnings Before Interest and Taxes	Earnings of firm before interest and taxes, indicating profitability.
Independent Variables		
Gender	Gender Diversity	Proportion of female executives in firm leadership roles.
CFO Compensation	CFO Compensation	Total compensation of the CFO of firm.
Control Variables		
SIZE	Market Capitalization	Total market value of the shares outstanding of firm.
MB	Market-to-Book Ratio	Ratio of a firm's market value per share to its book value per share.
TobinQ	Tobin's Q	Ratio of market value of assets to their replacement cost.
Growth	Operating Revenue Growth	Annual percentage increase in operating revenue of firm.
LEV	Leverage Ratio	Ratio of total debts of firm to its total assets.

3.3. Data Summary Statistics

Table 2: summarizes the statistics of variables

	N	Mean	SD	Min	p25	Median	p75	Max
ESG	36658	73.280	4.299	43.960	70.750	73.300	75.990	92.380
EPS	36658	0.295	0.403	-0.431	0.067	0.191	0.399	2.209
ROE	36658	0.045	0.053	-0.171	0.019	0.043	0.071	0.207
EBIT ($million)	36658	6.525	16.487	-3.037	0.562	1.632	4.812	116.382
Gender	36658	0.153	0.125	0.000	0.071	0.125	0.222	0.500
CFO Compensation ($million)	36658	0.043	0.041	0.000	0.018	0.031	0.053	0.254
Power	36658	0.133	0.19	0	0	0.006	0.251	0.671
LEV	36658	0.413	0.200	0.056	0.250	0.406	0.562	0.858
Growth	36658	0.077	0.134	-0.153	0.002	0.047	0.115	0.756
TobinQ	36658	2.034	1.195	0.864	1.272	1.651	2.340	7.329
BM	36658	0.617	0.239	0.142	0.437	0.613	0.790	1.159
SIZE ($million)	36658	22.802	1.134	20.467	21.987	22.626	23.449	26.307

Table 2 presents summary statistics of variables. The mean ESG score of 73.280 suggests that firms generally adhere to good environmental, social, and governance practices. The mean EPS of 0.295 indicates moderate profitability across the firms studied. A mean ROE of 0.045 demonstrates that firms, on average, are able to generate a reasonable rate of return on shareholders' equity. The mean EBIT of 6.525 million dollars signifies that the average operational earnings before interest and taxes are positive, reflecting overall firm profitability. The mean Gender Diversity of 0.153 shows a low yet existing participation of females in leadership roles within firms. The mean CFO compensation of 0.043 million dollars reflects the general level of top financial executive pay in these firms. The mean power distance is 0.133. The mean leverage ratio of 0.413 indicates a moderate use of debt in the capital structures of firms. An average growth rate in operating revenue of 0.077 shows that firms are generally experiencing positive revenue growth. The mean Tobin's Q of 2.034 suggests that the market tends to value the assets of firms higher than their replacement cost. A mean Market-to-Book Ratio of 0.617 indicates that, on average, the market valuation of firms aligns closely with their book value. Lastly, the mean market capitalization is 22.802 million dollars.

3.4. Regression Method Design

To evaluate the predictive power of gender diversity and CFO compensation on a firm's financial sustainability metrics, the study employs Equation. (1) for the testing:

$$Yi,t+1 = \alpha + \beta Xi,t + \sum Controlsi,t + \epsilon i,t \tag{1}$$

Where *Yi,t+1* represents the dependent variables, specifically annual ESG performance and EPS, measured in the year following period t for firm *i* in year *t*. This forward-looking approach not only allows us to forecast how current conditions affect future outcomes but also helps mitigate endogeneity issues by separating the time of measurement from the influence of predictors. The independent variable *Xi,t* includes the logarithmic values of gender diversity and CFO compensation for firm *i* in year *t*. The vector Controlsi,t contains control variables relevant for firm *i* in year *t*. Additionally, the study controls for industry and fixed effects to account for temporal and sectorspecific variations. To minimize the impact of outliers, all continuous control variables are winsorized at the 1% and 99% levels.

Next, to test the moderating effect that the power distance indicator—defined as the proportion of shares held by CFOs on the board—has on the predictive power of gender diversity and CFO compensation on financial sustainability metrics of a firm, the study employs Equation (2):

$$Yi,t+1 = \alpha + \beta\, CFOcompensationi,t + \gamma\, CFO\ compensationi,t \times Poweri,t + X\, Controlsj,t + \epsilon j,t \quad (2)$$

Where *Poweri,t* is the proportion of shares held by CFOs on the board for firm *i* in year *t*.

4. Empirical Results and Analysis

4.1. Baseline Results

Table 3: The results on financial sustainability metrics.

	(1) ESG (T+1)	(2) EPS (T+1)	(3) ESG (T+1)	(4) EPS (T+1)
Gender	0.173*** (0.051)	0.031*** (0.005)		
CFO compensation			0.453*** (0.031)	0.070*** (0.003)
LEV	-6.334*** (0.163)	-0.379*** (0.015)	-5.938*** (0.145)	-0.331*** (0.013)
growth	2.255*** (0.192)	0.460*** (0.018)	1.976*** (0.170)	0.431*** (0.016)
TobinQ	-0.672*** (0.042)	-0.003 (0.004)	-0.576*** (0.037)	0.007** (0.003)
BM	-2.261*** (0.223)	-0.168*** (0.021)	-1.869*** (0.199)	-0.130*** (0.018)
size	1.405*** (0.029)	0.152*** (0.003)	1.241*** (0.026)	0.126*** (0.002)
_cons	46.807*** (0.594)	-2.876*** (0.055)	43.048*** (0.580)	-3.434*** (0.053)
R-sq	0.153	0.190	0.155	0.202
N	23625	23625	30537	30537
Industry FE	Y	Y	Y	Y
Year FE	Y	Y	Y	Y

Table 3 shows the results of the predictive power of gender diversity and CFO compensation on financial sustainability metrics. Overall, this study demonstrates that gender diversity and CFO compensation positively predict future ESG and EPS performances.

It is shown in column (1) that an increase of one unit in gender diversity leads to an average increase of 0.173 units in future ESG scores. This is significant at the 1% level. In column (2), we can see that a one-unit rise in gender diversity leads to an average rise of 0.031 units in future EPS. This is significant at the 1% level. At the 1% level, column (3) shows that a one-unit increase in CFO pay leads to an average rise of 0.453 units in future ESG scores. If the CFO's pay raises by one unit, future EPS goes up by an average of 0.070 units, which is significant at the 1% level (Column 4).

Both gender diversity and higher pay for CFOs make companies much more financially stable, according to these findings. In particular, the fact that gender diversity is linked to higher ESG scores suggests that boards with more diverse members are better able to oversee and incorporate a wider range of environmental, social, and governance practices. This can improve trust among stakeholders and possibly lower investment risks. In the same way, the connection between higher CFO pay and better ESG and EPS scores could show how well CFO incentives are aligned with the company's overall sustainability goals.

This kind of connection can inspire chief financial officers to come up with plans that not only improve the company's finances but also make it more committed to environmentally friendly practices. Overall, these results show how important these governance factors are in shaping corporate plans and how they can help make businesses more resilient and responsible.

4.2. The Role of Power Distance

Table 4: The effect of Power Distance

	(1) ESG (T+1)	(2) EPS (T+1)
CFO compensation	0.429***	0.066***
	(0.035)	(0.003)
Power	9.380***	0.674***
	(2.367)	(0.217)
CFO compensation × Power	-0.514***	-0.034**
	(0.162)	(0.015)
Controls	Y	Y
R-sq	0.160	0.208
N	30537	30537
Industry FE	Y	Y
Year FE	Y	Y

Power distance has a moderating effect on the link between CFO pay and ESG and EPS metrics, as shown in Table 4. Overall, the study shows that power distance makes the positive effect of CFO pay on company success less strong.

It is shown in column (1) that an increase of one unit in power distance causes an average increase of 9.380 units in ESG scores. This is significant at the 1% level. It seems that when a company has a lot of power, it does better in terms of environmental, social, and government issues. This is probably because the company's leaders make decisions that are in line with what people expect of them and the environment.

Conversely, the interaction term between CFO compensation and power distance displays a negative coefficient (−0.514), significant at the 1% level. This result indicates that as power distance increases, the positive effect of CFO compensation on ESG scores diminishes, suggesting that in contexts where power is more concentrated, CFO compensation becomes less effective in enhancing ESG outcomes.

Column (2) indicates that each one-unit increase in power distance results in an average increase of 0.674 units in EPS, significant at the 1% level. This performance suggests that firms with concentrated power structures may experience more efficient financial decision-making, positively impacting earnings per share.

However, similar to the ESG findings, the interaction between CFO compensation and power distance relative to EPS yields a reduction of 0.034 units per unit increase, significant at the 5% level.

This outcome highlights the moderating role of power distance, which appears to restrict the effectiveness of CFO compensation in driving financial outcomes when power is more centrally held.

4.3. Robustness Checks

There are two parts to the reliability checks. As a first step, this study checks the results against other dependent factors, such as the company's Return on Equity (ROE) and Earnings Before Interest and Taxes (EBIT). Second, this study looks at whether the ability to predict how long a company will be able to stay in business based on gender diversity and CFO pay has long-term benefits.

For this purpose, the study forwards the financial sustainability metrics by two years to assess the enduring impact of these factors.

Table 5: Baseline Results hold by using ROE and EBIT as alternative dependent variables.

	(1) ROE (T+1)	(2) EBIT (T+1)	(3) ROE (T+1)	(4) EBIT (T+1)
Gender	0.003***	0.055***		
	(0.001)	(0.011)		
CFO compensation			0.009***	0.146***
			(0.000)	(0.007)
Controls	Y	Y	Y	Y
R-sq	0.124	0.691	0.136	0.705
N	23625	21643	30537	28010
Industry FE	Y	Y	Y	Y
Year FE	Y	Y	Y	Y

	(1) ESG (T+2)	(2) EPS (T+2)	(3) ESG (T+2)	(4) EPS (T+2)
Gender	0.149***	0.029***		
	(0.056)	(0.005)		
CFO compensation			0.460***	0.064***
			(0.034)	(0.003)
Controls	Y	Y	Y	Y
R-sq	0.146	0.150	0.148	0.161
N	20099	20099	26237	26237
Industry FE	Y	Y	Y	Y
Year FE	Y	Y	Y	Y

Using ROE and EBIT as different dependent factors, Table 5 shows that the original results are still true. To be more specific, column (1) shows that at the 1% level, a one-unit increase in gender diversity is associated with a 0.003-unit increase in future average ROE. In column (2), a one-unit increase in gender diversity is associated with a 0.055-unit increase in future average EBIT. This is very important at the 1% level. At the 1% level. In column (3), at a 1% level of gender diversity, a one-unit increase in CFO compensation is associated with an average increase in future ROE of 0.009 units. If CFO compensation increases by one unit, future EBIT increases by 0.146 units on average, which is significant at the 1% level (Column 4).

Table 6 shows that the results from the start have long-lasting affects. In particular, column (1) shows that for every unit increase in gender diversity, the ESG score increases by an average of 0.149

units over the next two years. This is significant at the 1% level. In column (2), it shows that a one-unit rise in gender diversity leads to an average rise of 0.029 units in two-year EPS, which is significant at the 1% level. It is shown in Column 3 that a one-unit increase in CFO pay leads to an average increase of 0.460 units in ESG scores over the next two years. This is significant at the 1% level. Column 4 shows that a one-unit increase in CFO pay leads to an average increase of 0.064 units in EBIT over the next two years. This is significant at the 1% level.

This further validates the robustness of the study, demonstrating that the predictive power of gender diversity and CFO compensation on financial sustainability exhibits stable long-term effects.

5. Conclusion

This research really looks into how having a mix of men and women on the board and paying the CFO affects the long-term financial health of Chinese businesses, focusing on how these factors change things when the culture is high on power distance. Four of them, ESG, EPS, ROE, and EBIT, were chosen as indicators to measure sustainability rather than focusing solely on net profit margin and ESG scores like other studies because these four indicators not only cover financial performance and capital efficiency but also consider It provides a more comprehensive and multi-dimensional perspective on the long-term comprehensive performance of enterprises in terms of environment, society and governance, and may further consider its endogeneity issues in the future. The research results show that both gender diversity and CFO compensation have significant positive effects on company financial performance and ESG indicators. Not only do gender-diverse boards excel in driving companies to adopt sustainable environmental, social, and governance practices, but they also improve decision-making quality and reduce risk through diverse perspectives. The reasonable design of CFO compensation can effectively motivate financial executives to focus on long-term financial stability and sustainable development goals.

Power distance, on the other hand, made these connections much less strong. The research discovered that in businesses with a high power distance, gender diversity and CFO pay still have a good effect on long-term profitability. However, this effect is lessened by the organization's structure. When this happens, the board of directors and CFO don't have a lot of freedom to make decisions. This makes people less motivated to promote sustainable development, especially when CFO pay is tied to long-term success.

Based on this finding, policymakers and business leaders should consider factors such as cultural background and power distribution when designing governance structures, especially in countries where hierarchical structures like China are prevalent, to ensure that gender diversity and executive compensation mechanisms can adequately Realize potential in driving corporate financial sustainability. Future research could further explore other cultural dimensions, such as uncertainty avoidance and individualism versus collectivism, or examine how different types of corporate governance factors influence corporate sustainability in different industries and cultural contexts. These directions can provide valuable insights into theory and practice, guiding business leaders in their efforts to achieve more sustainable and inclusive business models.

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