

THE IMPACT OF AUDIT COMMITTEE FEATURES ON FIRM PERFORMANCE – EMPIRICAL EVIDENCE FROM GCC COUNTRIES**Al-Zaimoor N., Desoky A., Al-Fadhel H.***

Abstract: The main aim of this study is to explore the probable impact of audit committee (AC) features (AC size, AC independence, AC meetings, and AC financial expertise) on firm performance of listed firms in Gulf Cooperation Council (GCC) countries. This empirical investigation uses a sample of 281 listed firms in the six GCC countries representing 1124 firm-year observations for a period of four financial periods (2019-2022). Findings from both Hierarchical Multiple Regression models suggest that only two out of four independent variables (AC independence and AC financial expertise) explain the firm performance of listed firms in GCC countries. This study makes a valuable contribution to the existing literature by offering a comprehensive analysis of the influence of AC existence and its specific features on firm performance, drawing insights from agency theory and resource dependence theory. By examining these relationships, the study enhances our understanding of the mechanisms through which AC characteristics can impact a firm's success. The findings of this study hold practical implications for businesses and investors. By understanding the impact of AC characteristics on firm performance, businesses can make informed decisions when structuring their audit committees. They can prioritize specific features or attributes that have been found to positively influence firm performance, such as independence, expertise, and financial literacy of AC members. This knowledge can guide businesses in optimizing their governance structures and enhancing their overall performance. The results can be used as a guide by governments and other regulatory bodies for drafting rules pertaining to corporate governance (CG) codes, particularly those that deal with AC creation.

Keywords: Audit committee features, firm performance, and GCC countries

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Introduction

To achieve the highest accountability level, the audit committee (AC) helps the board of directors by being responsible for maintaining accurate, reliable, and transparent financial records. Therefore, an AC plays a significant role in managing and monitoring entities' regulatory compliance and financial reporting activities (Budiharta and Kacaribu, 2020). The AC plays an imperative oversight role in corporate governance. It assists the board of directors in achieving their financial commitments as stated in shareholders' agreements, and they hold the board and the firm accountable in almost every aspect, from internal and external audit procedures to financial and risk management. (Budiharta and Kacaribu, 2020).

In many countries including Gulf Cooperation Council (GCC) countries, listed firms are required by law to have ACs. According to the Regulations in the Corporate Governance Code, ACs are required to ensure a transparent auditing procedure with consideration for risk and scope. To evaluate financial reports, audit processes and internal control mechanisms, regular meetings must be conducted by ACs with external auditors (Qeshta et al., 2021). Ensuring the smooth flow of information between a firm's internal and external parties and observing the audit procedure reduce agency costs, and as a result, reduce information asymmetry and increase corporate value (Heenetigala and Armstrong, 2011).

The GCC was established in 1981, containing six Middle Eastern countries: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates which formed a political and economic alliance. However, a limited number of empirical studies have been conducted in the emerging markets in the countries of GCC, to examine the impact of AC features on firm performance. The current study investigates this impact in the context of all six members of GCC. This empirical investigation aims to assess the potential impact of key AC features, including AC size, AC independence, AC meetings, and AC financial expertise, on the firm performance of listed companies in the six GCC countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates). The study adopts an agency theory and resource dependence perspective as a guiding framework to analyze the relationships between these AC characteristics and firm performance.

The originality of this study lies in its contribution to the literature by focusing on AC features and their influence on the firm performance of listed firms in the GCC area. This study is among the first to investigate this topic while controlling for the effects of firm characteristics (firm size, firm age, board size and firm industry type). This research contributes to the literature giving a wider and different analysis and additional interesting application of agency and resource dependence theories.

A limited number of studies examine the impact of the audit committee features on a firm's performance in developing countries, and even fewer in the GCC area, with a focus on one or two members of the GCC. Most previous studies explore the relationship between features of the board of directors and firm performance. However, the current study empirically examines the impact of AC features including AC size, AC independence, AC meetings, and AC financial expertise on

firm performance. Thus, this study contributes to the literature by identifying the impact of AC characteristics on firm performance.

Literature Review and Hypotheses Development

In addition to supporting the board of directors with audit-related matters, the AC is in charge of keeping an eye on and managing the firm's internal and external audit procedures. It is responsible for overseeing regulatory compliance and financial reporting activities (Budiharta and Kacaribu, 2020). An essential part of large enterprises' corporate governance (CG) structures is ACs, to ensure companies comply with financial reporting regulations and maintain accurate financial records. They also provide a certain amount of control and an unbiased assessment of a firm's financial reporting practices. In many countries, like GCC countries, listed firms are required by law to have ACs. The audit committee plays a vital role in increasing firm value and putting corporate governance concepts into practice. The principles of corporate governance impose that audit committees must function independently and with appropriate professional care. Establishing separate and independent AC is considered a positive step by companies and is awarded maximum advantages (Musova et al., 2023). As the audit committee is held responsible for financial manipulation, financial information transparency reduces information asymmetry and increases corporate value (Heenetigala and Armstrong, 2011).

The quality of information provided to various stakeholders and the auditing process can both be enhanced by an efficient AC. Additionally, it might support auditors' independence advancement and management challenges. While it is ideal for AC members to have a variety of backgrounds, in many nations, at least one member must have prior business, accounting, or financial experience. Five guiding principles are outlined to help AC fulfil its role: recognizing that there is no one-size-fits-all solution, making sure the right people are involved, keeping an eye on the appropriate tone, making sure oversight procedures facilitate understanding of important roles and responsibilities, risks, and providing direct accountability for the external auditor.

Agency theory assumes that there is a variation in the interests of the shareholders and managers that leads managers to work in their best interests. Shareholders can monitor or reduce this conflict by providing incentives to the managers (Jensen and Meckling, 1976). It is important to monitor managers' activities to ensure that they are acting in the shareholders' best interest. (Turley and Zaman, 2014). Therefore, to reduce managers and shareholders conflict and information asymmetry, corporate governance mechanisms such as AC including members with appropriate characteristics such as independence, and expertise is crucial (Wiseman et al., 2012). Resource dependence theory assumes that a bigger board size would contribute to effective board discussions because of the presence of members with different expertise and knowledge. In addition, a bigger board size would assist in mitigating the environmental risks (Dakhlallah, et al., 2020). An audit committee with the

appropriate number of members will permit them to make decisions for shareholders' best interests using their expertise and knowledge (Ghazali, 2010).

The audit committee is a corporate governance technique that started to be shown significantly. An audit committee plays an essential role in the application of corporate governance principles. It leads to improve the efficiency by enhancing information's quality (Dakhlallah, et al., 2020; Al-okaily and Naueihed, 2019). A prior study states that an audit committee's effectiveness has a significant impact on the performance of firms (Pearson, 2009). The agency issues can be reduced by the audit committee in the firm and the managers can be motivated to enhance firm performance (Dakhlallah, et al., 2020). To minimize information asymmetry and conflicts of interest, the adequacy and integrity of the information provided to shareholders and stakeholders by management are validated by the audit committee (Agyemang- Mintah and Schadewitz, 2018).

Numerous studies of the characteristics and roles of audit committees were conducted worldwide. A sizable portion of these studies included relating audit committee characteristics such as audit committee size, audit committee independence, audit committee meeting, and audit committee financial expertise with enhancing the firm performance. However, prior studies revealed mixed results on the relation between the characteristics of the audit committee and firm performance.

Audit Committee Size

One of the essential characteristics that enhances the audit committee's effectiveness is the audit committee size (Herdjiono and Sari, 2017). The audit committee must have more than three members to fulfill its tasks (Vicknair et al., 1993). This will reduce the possibility of conducting fraudulent activities as the audit committee's size is a crucial indicator for quality monitoring (Rahman et al., 2019). Audit committee members will be able to use their expertise in shareholders' benefit by selecting the proper audit committee's size (Dakhlallah, et. al., 2020). Dalton et al. (1999) stated that the audit committee's efficiency will be less when the audit committee members are too small or too large.

The findings from previous research on the relationship between the size of the audit committee and firm performance are inconclusive. Al- Matari et al. (2012) stated that the audit committee size is negatively and significantly associated with firm performance of the Saudi firms listed in the Saudi Stock Exchange (TADAWL) in 2010, excluding financial firms. Afza and Nazir (2014) also found that the association between committee size and firm performance in Pakistan is significantly negative. Mohammed (2018) found the same association for Public non-life insurance firms in Thailand, firms listed on the Nairobi Securities Exchange, and 74 non-financial firms listed on the Jordanian Stock Exchange for the years 2010 to 2016, respectively. In the Bahrain context, a study conducted by Al-Jalahma (2022) reported that the size of the audit committee is negatively associated with the firm performance of 14 firms listed in Bahrain Bourse during the period 2005 to 2019.

Whereas Zraiq and Fadzil (2018) found a positive but insignificant association between audit committee size and ROA for 228 Jordanian industrial and services firms. Oroud (2019) found similar findings in the same context. Aanu et al. (2014) also found no relation for 25 Nigerian manufacturing firms for the period (2004 - 2011). In addition, Herdjiono and Sari (2017) also reported no relation between the committee size and the firm performance of 156 Indonesian firms listed on the Indonesia Stock Exchange. In the UK context, Al-Okaily and Naueihed (2019) found that the size of the audit committee is insignificantly related to the family firm performance of 350 (Financial Times Stock Exchange) firms listed in the London Stock Exchange, for the period 2005 and 2013. A study by Qeshta et al. (2021) found that there is no relation between the size of the audit committee and the performance of insurance firms listed on the Bahrain Stock Exchange for the period 2012-2019. On the other hand, Zraiq and Fadzil (2018) found that the association between audit committee size and EPS is significantly positive for 228 Jordanian industrial and services firms. In the UK context, Al-Okaily and Naueihed (2019) found that the size of the audit committee is positively and significantly associated with the non-family firm performance of 350 (Financial Times Stock Exchange) firms listed in the London Stock Exchange, for the period 2005 and 2013. The same evidence was found by Rahman, et al. (2019) from 109 listed manufacturing firms of the Dhaka Stock Exchange (DSE) from 2013 to 2017. In addition, the audit committee size is positively associated with firm performance of Indian firms (Sarpal, 2017), for non-financial Omani firms listed in the Muscat Security Market (MSM) (Al-Matari et al., 2014), for 165 non-financial firms (Alqatamin, 2018), and Jordanian banks during the period of 2014 to 2017 (Warrad and Khaddam, 2020). A recent study by Hezabr et al. (2023) found that the size of the audit committee has a positive impact on the performance of insurance companies listed in Oman between 2015 and 2019. Therefore, based on the explanation above, this research study hypothesized that:

H1: Audit committee size has a significant positive impact on firm performance of listed firms in GCC countries.

Audit Committee Independence

Based on both the agency theory and the resource dependence theory, the independent audit committee members ensure efficiency in evaluating firms' financial reporting and auditing as the mistakes can be identified and disclosed without interference from the managers and auditors (Dakhlallah, et al., 2020). Therefore, the committee's power will be increased, the agency issues will be decreased, and the firm's performance will be increased due to the higher independence in the committee (Yeh et al., 2011).

The results of previous research on the relationship between audit committee independence and firm performance have yielded mixed results. Some research reported that the independence of the audit committee is negatively associated with the firm's performance. In the Jordan context, Mohammed (2018) found a negative relation association between audit committees and firms' performance for 74 non-financial firms listed on the Jordanian stock exchange for the period 2010 to 2016.

Similarly, Almoneef and Samontaray (2019) and Sarpal (2017) reported a negative relation for listed banks in Saudi Arabia, and India, respectively. In the Bahrain context, Al-Jalahma (2022) provided evidence that the independence of the audit committee is negatively associated with the firm performance of 14 firms listed in Bahrain Bourse during the period 2005 to 2019.

Other studies found that such independence is positively and significantly related to firm performance in several contexts. Dakhllalh et al. (2020) reported that the relationship between the independence of the audit committee is positively related to the Jordanian firms' performance measured using Tobin's Q for the period 2009 to 2017. Alqatamin (2018) and Hamdan et al. (2013) found the same findings in the same context for 165 non-financial firms for the period 2014-2016, and 50 industrial firms listed in the Amman stock exchange for the period 2004 -2009, respectively. Owiredu and Kwakye (2020) also noted that bank's financial performance in Ghana measured by ROA and ROE is positively associated with the independence of the audit committee for the period 2007-2016. The same findings are reported in India (Kaura et al., 2019), in France (Ben Barka and Legendre, 2017), in Malaysia (Nawafly and Alarussi, 2018), in Nigeria (Aanu et al., 2014), in Hong Kong non-family firms (Leung et al., 2014), and in the US (Chan and Li, 2008). A recent study by Hezabr et al. (2023) found that the independence of the audit committee has a positive impact on the performance of insurance companies listed in Oman between 2015 and 2019.

On the other hand, some studies have reported an insignificant association between the independence of the audit committee and firm performance. A study by Qeshta et al. (2021) found that there is no relation between the independence of the audit committee and the performance of insurance firms listed on the Bahrain Stock Exchange for the period 2012-2019. Moreover, Al- Matari et al. (2012) stated that the audit committee independence is negatively and insignificantly associated with firm performance of the Saudi firms listed in the Saudi Stock Exchange (TADAWL) in 2010, excluding financial firms. The same findings are reported in India (Bansal and Sharma, 2016), in Hong Kong family firms (Leung et al., 2014), and in the US (Bolton, 2014). Therefore, based on the explanation above, this research study hypothesized that:

H2: Audit committee independence has a significant positive impact on firm performance of listed firms in GCC countries.

Audit Committee Meetings

Another essential factor that enhances the audit committee's effectiveness is the audit committee meetings. Audit committee meetings could assist in reducing the agency's issues and eliminating asymmetric information (Garas and ElMassah, 2018). Financial decisions by all investors and shareholders will be informed by having precise and timely information (Bhuiyan and D'Costa, 2020).

The results of previous studies on the relationship between the audit committee meetings and the performance of the firm, however, are mixed. Al Farooque et al. (2020) reported that the frequency of audit committee meetings and firm

performance are significantly and positively associated with Thai firms. The same results were reported by Almoneef and Samontaray (2019) found the same outcomes for Saudi banks, Oroud (2019) for Jordanian firms, and Chou and Buchdadi (2017) for Indonesian banks. Nuhu et al. (2017) discovered a positive relationship between the audit committee meetings and the performance of 18 food and beverage firms listed on the Nigerian Stock Exchange for the period 2007 to 2016.

Other studies found that the frequency of audit committee meetings is negatively and significantly related to firm performance. For example, Vafeas (1999) reported a negative relationship. Another study reported that the extra costs of conducting audit committee meetings have a negative impact on this association (Rahman et al., 2019). A recent study by Kamaludin et al. (2023) reported that the number of audit committee meetings has an inverse association with the performance of selected listed firms in the Saudi Arabian Stock Market (Tadawul) between 2012 and 2017. On the other hand, some studies have reported an insignificant association between audit committee meetings and firm performance. In Jordan context, Alqatamin (2018) found an insignificant relation between the meeting number and 165 non-financial firms' performance. In Oman context, Al-Matari et al. (2014) reported the same results for non-financial Omani firms listed in the Muscat Security Market (MSM). Aanu et al. (2014) also found no relation for 25 Nigerian manufacturing firms for the period (2004 -2011). Therefore, based on the explanation above, this research study hypothesized that:

H3: Audit committee meetings have a significant positive impact on firm performance of listed firms in GCC countries.

Audit Committee Financial Expertise

The levels of expertise among the audit committee members may also assist in impacting the financial performance of firms (Alqatamin, 2018). Firms with higher quality of earnings are more related to audit committee members who possess financial expertise (Carcello et al., 2006). The quality of financial reporting is improved with the presence of an audit committee with accounting or finance experts (Abbott et al., 2004). Besides, accounting mistakes will be avoided and the possibility of litigation against the firm will be reduced with the presence of an audit committee with accounting or finance experts (Kallamu and Saat, 2015).

Several researchers argued that the expertise of audit committee members is linked to the performance of the firms. Nuhu et al. (2017) found that the financial expertise of the audit committee is positively and significantly related to the performance of 18 food and beverage firms listed on the Nigerian Stock Exchange for the period 2007 to 2016. Aanu et al. (2014) also found a positive and significant relationship for 25 Nigerian manufacturing firms for the period (2004 -2011). Another study found a positive and significant association between the audit committee's experience and the performance of non-family firms listed on the London Stock Exchange for the period 2005 to 2013 (Al-Okaily and Naueihed, 2019). A recent study by Hezabr et al. (2023) found that audit committee's experience has a positive

impact on the performance of insurance companies listed in Oman between 2015 and 2019.

In the UK context, Alzeban and Sawan (2015) argued that internal audit suggestion could be better implemented with the presence of more expert audit committee members. In addition, Kallamu and Saat (2015) reported a positive relation between the audit committee's economic experience and the performance of Malaysian firms. Finally, Dakhlallh et al. (2020) reported that the relationship between the expertise of the audit committee is positively related with the Jordanian firms' performance measured using Tobin's Q for the period 2009 to 2017. In contrast, Alqatamin (2018) found an insignificant relation between the financial expertise of the audit committee and 165 non-financial Jordanian firms' performance for the period 2014-2016. Therefore, based on the explanation above, this research study hypothesized that:

H4: AC financial expertise has a significant positive impact on firm performance of listed firms in GCC countries.

Research Methodology

Sample and Data Collection

The population of the current research involves listed firms in GCC countries. Therefore, the sample contains various listed firms from the six GCC countries representing five distinct categories (1. Industrial; 2. Oil and gas; 3. Real estate; 4. Services; and 5. Others). Across the four years included in this research (2019, 2020, 2021 and 2022), 281 listed firms are selected representing 1124 firm-year observations. Table 1 below shows all details of this research sample. (A full list of the selected firms is available upon request). To gather information for the current empirical investigation (AC features, firm performance, and other firm features), several sources are consulted, including the websites of listed firms, various GCC stock exchanges, and other related websites that provide data of listed firms (e.g., www.mubasher.net). For example, information about AC attributes is found in the websites and annual reports of the sampled firms.

Table 1. Listed firms included in the current research

	Bahrain	KSA	Kuwait	Oman	Qatar	UAE	Total
Listed firms	41	200	154	118	47	144	704
Firms selected for the study	17	98	48	68	24	45	300
Excluded firms	03	02	05	02	03	04	19
Firms included in the study	14	96	43	66	21	41	281
Firm-year observations (4 years)	56	384	172	264	84	164	1124
Percentage of selected firms	5.0%	34.1%	15.3%	23.5%	7.5%	14.6%	100%

Note: A full list of the selected firms is available upon request from the corresponding author

Research Variables

As the main aim of this research is to investigate the possible impact of AC features on firm performance, the dependent variable in this research is firm performance, while the independent variables are four AC variables. Several accounting measures of performance such as return on assets (ROA), return on investment (ROI), and earnings per share (EPS), can be used to measure firm performance, the dependent variable. Following a number of previous studies (e.g., Omran, 2009; Desoky and Mousa, 2013), the current study considers ROA measured as the ratio of the net profit to total assets. Independent variables employed in this study include four AC variables (AC size, AC independence, AC number of meetings, and AC financial expertise).

Table 2 exhibits independent variables “Panel A”, their symbols, predicted signs and measurements. The literature shows that there are various associations between firm performance and a number of firm characteristics including firm industry type, firm age, firm size, and board size. Thus, the current study considers four firm characteristics variables namely firm industry type (FIINTY), firm age (FIAGE), firm size (FISIZE), and board size (BOSIZE) are used in this empirical investigation as control variables (Panel B) to control for possible influences on firm performance, the dependent variable.

Table 2. Independent and control variables

Group of variables	Symbol	Expected sign	Measurement
<u>Panel A: Independent variables:</u>			
1. AC size	ACSIZE	+	No. of AC members.
2. AC independence	ACINDE	+	% of AC independent members.
3. AC meetings	ACMEET	+	No. of AC meetings.
4. AC financial expertise	ACFIEX	+	% of AC members of financial expertise.
<u>Panel B: Control variables:</u>			
1. Firm industry type	FIINTY	+ or -	
2. Firm size	FISIZE	or	Five different industry types.
3. Firm age	FIAGE	+ or -	The natural log. of firm’s total assets.
4. Board size	BOSIZE	+	Firm age by years since established. No. of board members.

Note: 1- Data on each variable is collected at the end of each financial year; 2- Expected signs of variables are based on results of previous studies; 3- Firm performance and firm size are in US\$

Data Analysis

The current study utilizes the “Statistical Package for Social Sciences – SPSS” to perform descriptive and statistical analysis. In addition to descriptive and Pearson correlation is used to study the significance and strength of the correlation between the dependent variable (FIPERF) from one side and independent variables and

control variables from the other. Also, to test the hypotheses formulated earlier in this research, two hierarchical multiple regression (HMR) models with an enter method for the dependent variable are designed. The first HMR regression model, Model 1, involves the dependent variables (firm performance or FIPERF) with control variables, while the second, Model 2 involves the same dependent with all variables, independent and control. Model 1 and Model 2 are presented as follows:
Model 1:

$$Y (FIPERF) = \beta_0 + \beta_1 FIINTY + \beta_2 FISIZE + \beta_3 FIAGE + \beta_4 BOSIZE + \varepsilon$$

Model 2:

$$Y (FIPERF) = \beta_0 + \beta_1 FIINTY + \beta_2 FISIZE + \beta_3 FIAGE + \beta_4 BOSIZE + \beta_5 ACSIZE + \beta_6 ACINDE + \beta_7 ACMEET + \beta_8 ACFIEX + \varepsilon$$

Where:

Y = refers to the dependent variable (FIPERF), and (ACSIZE, ACINDE, ACMEET and ACFIEX) are independent variables while FIINTY, FISIZE, FIAGE and BOSIZE are control variables. β_0 is the “constant”; $\beta_i, i=1, \dots, 8$, are parameters, while ε indicates to error term.

Research Results and Discussion

Descriptive Statistics

Table 3 below shows descriptive results of 1124 firm-year observations, revealing 1.82% as an average of firm performance (FIPERF), the dependent variable when it is measured by the firm’s ROA with a maximum of 76.11%, a minimum of -51.43 and 24.16% as the standard deviation. This low average of firm performance is expected and may be justified because at least two out of the four financial periods covered in this study witnessed major closedowns throughout the world, resulting in their excessive costs, low net revenue and financial performance. Regarding independent variables, Table 3 reveals detailed AC features (size, independence, number of meetings and financial expertise). For instance, it shows that AC size (ACSIZE) ranges from 2 to 5 members, with an average of 3.56 members with a standard deviation of 0.67. The maximum number of members is 5 members while the minimum is only two members.

Further, the table shows descriptive results of AC independence (ACINDE). It reveals that the majority of examined firms have independent AC members as the mean score of independent AC members is 0.74%; the highest and lowest scores are 1 and 0, respectively, suggesting that independent members dominate the majority of ACs in listed firms in the GCC. This is also expected as listed businesses in the GCC are advised by their corporate governance regulations to have independent ACs members.

Concerning AC meetings (ACMEET), the table shows that the maximum AC number of meetings is 22, the minimum is 0, and the average is 5.45 with 1.98 meetings as a standard deviation. These statistics show that, on average, around 5 meetings are assembled every period by the AC in the sampled firms through the four years included in this study. Based on the above result, ACs in the selected businesses convene more frequently than the suggested annual number of meetings. In this regard, Amran et al. (2014) concludes that to improve firms' sustainable reporting, the AC should meet no fewer than three times annually. Furthermore, Table 3 indicates that 73 percent of AC members of the selected enterprises had financial experience on average suggesting that most AC members in GCC-listed firms have financial experience.

Pertaining to control variables, the table confirms that firm size (FISIZE) of selected listed firms ranges from US\$2.16 million to US\$129.453 billion with US\$2.652 billion as the mean firm total assets with a standard deviation of US\$9.826 billion. The firm age (FIAGE) of the selected listed firms ranges from 5 years as the minimum to 139 years as the maximum firm age with a mean of about 31 years as the average age. Board size (BOSIZE) of listed firms selected for the current study ranges from 3 members as a minimum to 16 members a maximum with a mean of 8.19 members. Table 3 shows that the sample includes a total of 1124 listed firms distributed over 5 sectors: 416 (37%) industrial, 48 (4.3%) oil and gas, 120 (10.7%) real estate, 152 (13.5%), services, and 388 (34.5%) other firms.

Table 3. Descriptive statistics of the study variables

Variables	Minimum	Maximum	Mean	SD	
<u>The dependent variable:</u>					
Firm performance - (FIPERF)	-51.43	76.11	1.82	24.16	
<u>Independent variables:</u>					
AC size (ACSIZE)	2	5	3.56	0.67	
AC independence (ACINDE) (%)	0	1	0.74	0.28	
AC meetings (ACNMEE)	0	22	5.45	1.98	
AC financial expertise (ACFIEX) (%)	0	1	0.72	0.23	
<u>Control variables:</u>					
Firm size (FISIZE)	2.16	129,453.22	2,651.72	9,825.99	
Firm age (FIAGE)	5	139	30.87	16.22	
Board size (BOSIZE)	3	16	8.19	2.00	
Industry type (FIINTY)	(1)	(2)	(3)	(4)	(5)
No.	416	48	120	152	388
%	37.0	4.3	10.7	13.5	34.5

Note: 1- Findings are based on 1124 firms' year observations. 2- For more details on each variable, refer to Table 2 above. 3- The above data covers a period of 4 years (2019-2022); 4- Firm size is in US\$ million

Correlation Findings

Pearson correlation analysis in Table 4 displays significant relationships between firm performance (FIPERF), the dependent variable, and two out of four independent variables which are AC independence (ACINDE) and AC expertise (ACFIEX).

However, these correlations are not powerful enough because they have relatively moderate coefficients which range from only -0.330 and 0.261. For instance, the second independent variable, ACINDE, is significantly connected with the dependent variable (FIPERF) with a relatively positive moderate correlation value of 0.330. Similarly, the fourth independent variable, ACFIEX, is significantly negatively correlated with the dependent variable with a correlation value of -0.261. In contrast, no significant connection is found between the other two independent variables (ACSIZE and ACMEET) and the dependent variable.

Moreover, Table 4 shows other relationships between the dependent variable (FIPERF) and control variables and among independent and control variables. For instance, AC size (ACSIZE) is significantly positively correlated with another independent variable, which is AC number of meetings (ACMEET), but the correlation is weak. Similarly, AC independence (ACINDE) is significantly positively correlated with AC financial expertise (ACFIEX); however, it is also a weak correlation.

Table 4. Correlation results

	FIINT Y	FISIZ E	FIAG E	BOSIZ E	ACSIZ E	ACIND E	ACMEE T	ACFIE X	FIPERF
FIINTY	1								
FISIZE	-.055	1							
FIAGE	-.079*	-.125	1						
BOSIZE	.145**	.360**	-.012	1					
ACSIZE	-.070**	.165**	.066	.193**	1				
ACINDE	-.079**	.081**	-.110**	.022	.039	1			
ACMEET	.082**	.190**	.017	.152**	.128**	-.024	1		
ACFIEX	.011	-.003	-.006	-.013	-.043	.113**	-.001	1	
FIPERF	.059	.111**	.015	.038	.024	.330**	.014	-.261**	1

Note: ** Correlation result is significant at the 0.01 level (2-tailed); - All coefficients are based on 1124 firm-year observations

Regression diagnostics are performed for independent variables to further evaluate the potential for multicollinearity among them. Based on the results presented in Table 5, multicollinearity would not be a significant concern in this study because variance inflation factors (VIF) are less than 2 and tolerance levels are higher than 0.60 for all independent variables. Inter-correlation among independent variables also does not appear to be an issue. Before using two independent variables with a bivariate correlation of 0.7 or higher in the same correlation study, Tabachnick and Fidell (2021) contend that careful consideration is necessary.

Table 5. Collinearity statistics

Model	Variable	Tolerance	VIF	Model	Variable	Tolerance	VIF
1	FIINTY	.984	1.098	2	FIINTY	.933	1.156
	FIRMSZ	.882	1.173		FIRMSZ	.857	1.234
	FIAGE	.926	1.009		FIAGE	.919	1.076
	BOSIZE	.871	1.204		BOSIZE	.843	1.232
			ACSIZE		.976	1.089	
			ACINDE		.971	1.060	
			ACMEET		.935	1.074	
			ACFIEX		.998	1.023	

Regression Findings

In this analysis, the HMR is utilized to eliminate the potential impact of the control variable or variables and identify the independent variable or factors that help predict the dependent variables (FIPERF). The results of the regression are shown in Table 6 below. Regarding regression data, it can be observed that both models exhibit significant ($p < 0.05$) values for R^2 , Adjusted R^2 , and R^2 change. Tabachnick and Fidell (2021) imply that the adjusted R^2 provides a better estimation of the true population value, especially with a small sample. With an F-value of 4.556 and an adjusted R^2 of 11%, Table 6 shows that Model 1 is statistically significant (p-value is 0.001) in explaining the dependent variable (FIPERF). Furthermore, Model 2 exhibits statistical significance (p-value of 0.002) with an adjusted R^2 of 19.2% and an F-value of 3.082. An additional 9.6% of firm performance (the dependent variable) may be explained by the four independent variables included in the study, according to Table 6 (Model 2). Findings from the HMR are consistent with those from the correlation findings.

Table 6. Regression results

	Model 1			Model 2		
	$R^2 = 0.121,$			$R^2 = 0.217,$		
	Adjusted $R^2 = 0.110,$			Adjusted $R^2 = 0.192,$		
	R^2 change = 0.121			R^2 change = 0.096		
	F = 4.556, Sig = 0.001			F = 3.082, Sig = 0.002		
	Beta	t	Sign	Beta	T	Sign
(Constant)	-	-3.753	.000	-	-3.215	.001
FIINTY	.055	1.818	.069	.061	1.998	.046
FISIZE	.116	3.631	.000	.119	3.559	.000
FIAGE	.031	1.040	.299	.035	1.162	.245
BOSIZE	-.011	-.358	.721	-.013	-.394	.594
ACSIZE				.007	.227	.821
ACINDE				.036	1.176	.031
ACMEET				-.019	-.716	.538
ACFIEX				-.067	-2.238	.025

Significant results are found in both models for firm size (FISIZE), a control variable. Also, significantly, only two independent variables which are AC independence (ACINDE) and AC financial expertise (ACFIEX) impact firm performance (the dependent variable). The other two independent variables (ACSIZE and ACMEET) do not explain the dependent variable. The above findings, which are consistent with correlation findings, suggest that two out of four independent variables explain the firm performance of listed firms in GCC countries. The above regression results partially support what was concluded in some previous studies such as Pearson (2009) who reports that an audit committee's effectiveness has a significant impact on the performance of firms.

Concerning AC independence (ACINDE), the finding of the current study is in line with some previous studies accomplished in various areas of the globe including Jourdan (Dakhlallah et al., 2020; Alqatamin, 2018; and Hamdan et al., 2013); Ghana (Owiredu and Kwakye, 2020); India (Kaura et al., 2019); France (Ben Barka and Legendre, 2017); Malaysia (Nawafly and Alarussi, 2018); Nigeria (concludes that AC independence has a positive impact of the performance of insurance companies listed Aanu et al., 2014); Hong Kong (Leung et al., 2014); and the US (Chan and Li, 2008). Further, this result is consistent with findings reported in one GCC country, Oman by Hezabr et al. (2023). The above discussion supports the argument that the AC committee's power will be increased, the agency issues will be decreased, and the firms' performance will be increased because of the increase of the AC committee's independence (Yeh et al., 2011).

On the other hand, the current study finding on AC independence conflicts with other previous studies which report a negative significant relationship between AC independence and firm performance in Jourdan (Mohammed, 2018); in Saudi Arabia (Almoneef and Samontaray, 2019); in India (Sarpal, 2017); and in Bahrain (Al-Jalahma, 2022). Moreover, this result disagrees with some previous studies that report insignificant association between AC independence and firm performance in Bahrain (Qeshta et al., 2021); in Saudi Arabia (Al-Matari et al., 2012; in India (Bansal and Sharma, 2016); in Hong Kong (Leung et al., 2014); and in the US (Bolton, 2014). Based on the above result, H2 "AC independence has a significant positive impact on firm performance of listed firms in GCC countries" is accepted.

Regarding AC financial expertise (ACFIEX), Table 6 reveals that AC financial expertise has a significant positive impact on the dependent variable, firm performance. This finding confirms the claims made by Alqatamin (2018) that firms' financial performance can also be influenced by the expertise levels of audit committee members and that AC members with financial expertise are more likely to work for firms with higher quality earnings (Carcello et al., 2006). This result is consistent with a number of previous studies which argue that the financial expertise of audit committee members is directly linked to firm performance including Hezabr et al. (2023) in GCC country, Oman between 2015 and 2019; Nuhu et al. (2017) and Aanu et al. (2014) in Nigeria; (Al-Okaily and Naueihed (2019) in the United Kingdom; and Kallamu and Saat (2015) in Malaysia. Also, this finding conflicts with

what is reported by Alqatamin (2018) in Jordan. Considering the above result, H4 “AC financial expertise has a significant positive impact on firm performance of listed firms in GCC countries” is accepted.

For the other two independent variables, AC size (ACSIZE) and AC meetings (ACMEET), HMR findings show that both have insignificant impact on the dependent variable, firm performance. This means that both independent variables do not explain firm performance, the dependent variable. For AC size (ACSIZE), the current study HMR result confirms what is concluded by a number of previous studies including Zraiq and Fadzil (2018), Oroud (2019), Herdjiono and Sari (2017), Al-Okaily and Naeihed (2019), and Qeshta et al. (2021) who report no significant impact of AC size in firm performance. Also, the above result on AC size conflicts with what is found in other previous studies such as Hezabr et al. (2023) in Oman, Al-Jalahma (2022) in Bahrain, Al-Okaily and Naeihed (2019) in the UK, Rahman, et al. (2019) in Bangladesh, Zraiq and Fadzil (2018) in Jordan, Sarpal (2017) in India, Afza and Nazir (2014) in Pakistan, and Al- Matari et al. (2012) in Saudi Arabia who report significant association between AC size and firm performance. This finding does not support the argument of resource dependence theory which assumes that an AC with the appropriate number of members will permit them to make decisions for shareholders’ best interest using their expertise and knowledge. Consequently, H1 “AC size has a significant positive impact on the firm performance of listed firms in GCC countries” is rejected.

HMR results on AC meetings (ACMEET) show no significant association between AC meetings and the dependent variable. This result does not confirm the expectation that the higher the firm’s AC number of meetings, the higher the firm’s performance. This result is in line with some previous studies which report insignificant association between AC meetings and firm performance such as Alqatamin (2018) in Jordan, Al-Matari et al. (2014) in Oman, and Aanu et al. (2014) in Nigeria. On the contrary, the above HMR result conflicts with a number of previous studies, including Kamaludin et al. (2023), who report that the number of audit committee meetings has a significant negative association with the performance of the of the selected listed firms in Saudi Arabian Stock Market between 2012 and 2017; Al Farooque et al. (2020) in Thailand, Almoneef and Samontaray (2019) in Saudi Arabia, Oroud (2019) in Jordan, Chou and Buchdadi (2017) in Indonesia, Nuhu et al. (2017) in Nigeria who all report that AC meeting has a significant positive impact on firm performance. Accordingly, H3 “AC meetings have a significant positive impact on firm performance of listed firms in GCC countries” is rejected.

In conclusion, the HMR results indicate that only H2 and H4 are accepted, while H1 and H3 are rejected. This is partially consistent with some previous studies showing that AC independence (ACINDE) and AC financial expertise (ACFIEX) are positively associated with firm performance (FIPERF) of listed firms in GCC countries. However, these results indicate the other two independent variables AD

size (ACSIZE), and AC meetings (ACMEET) are not significantly associated with firm performance.

Table 7. Summary results of hypotheses testing

Research hypotheses	Result
H1: AC size has a significant positive impact on firm performance of listed firms in GCC countries.	Rejected
H2: AC independence has a significant positive impact on firm performance of listed firms in GCC countries.	Accepted
H3: AC meeting has a significant positive impact on firm performance of listed firms in GCC countries.	Rejected
H4: AC financial expertise has a significant positive impact on firm performance of listed firms in GCC countries.	Accepted

Conclusion

The current research extends the offered literature by observing the impact of AC features on firm performance. Four independent variables representing AC features (AC size, AC independence, AC meetings, and AC financial expertise) are used after statistically controlling the effects of firm size, firm age, board size, and industry type. Appropriate data is collected from firms' annual reports and Websites of 281 sampled listed firms which represent 1124 firm-year observations across the GCC six countries for a period of four financial periods (2019-2022). Two HMR models are accomplished for four AC independent variables (ACSIZE, ACINDE, ACMEET, and ACFIEX), and four control variables (FISIZE, FIAGE, BOSIZE, and FIINTY). HMR is employed in this investigation to eliminate the probable effect of the control variable(s) and to identify which AC variable(s) influence the probability of the dependent variables, firm performance. Pearson correlation analysis displays significant relationships between firm performance (FIPERF) and only two out of four independent variables which are AC independence (ACINDE) and AC expertise (ACFIEX). HMR results indicate that both HMR models are significant with acceptable R² and Adjusted R² values. Findings from both models of HMR are consistent with those from the correlation findings. HMR results suggest that only two out of four independent variables (AC independence and AC financial expertise) explain the firm performance of listed firms in GCC countries. However, the other two independent variables (AC size and AC meetings) do not explain the dependent variable, firm performance. Based on HMR results, H2 and H4 are accepted, while H1 and H3 are rejected.

Academic Implication

This study may add to the amount of information already available on developing markets in general and the GCC area in particular by using the agency and resource dependency theories as a lens. It offers a more thorough analysis and comprehension of the possible influence of AC features on the business performance of listed firms

in GCC nations. This study may be used as a reference by businesses and investors to assist them in understanding the impact of AC characteristics on firm success. The study's outcomes are important because they show that the only factors that significantly influence business performance are AC's independence and AC's financial background. As a result, this research adds to earlier findings on the connection between AC features and firm performance. Lastly, the findings can offer academics studying accounting perspectives on the significance of including AC characteristics in accounting studies concerning the performance of listed firms in developing markets, such as the GCC.

Practical Implications

The influence of AC features on business performance is now clearer. This study motivates practitioners to investigate similar problems in emerging markets such as the GCC. This study offers managerial recommendations to boost the independent members and members with financial and business backgrounds of the AC, arguing that these two factors are the most significant factors influencing firm performance. The results can be used as a guide by governments and other regulatory bodies for drafting rules pertaining to CG codes, particularly those that deal with AC creation. The study offers initial evidence about the influence of AC features on the performance of listed firms in GCC countries. These findings may have implications for other developing stock markets at the management level.

Limitations and Future Research

This study has a number of limitations. First, the sample size is a little bit small as it consists of 1124 firm-year observations over a four-year period (2019–2022). Second, other AC factors, such as AC members' ages and gender, are not the subject of this study; instead, it concentrates on four AC features. Third, the study's focus is on GCC markets which have many similarities in terms of regulations and the economy. As a result, conclusions may not apply to other non-GCC nations as their legal frameworks and economic standing may differ.

If the sample size is increased and other AC variables, including the age and gender of AC members, are included, future studies may be able to overcome the constraints and improve earlier findings. Furthermore, examining other firm and ownership characteristics that are left out of the current analysis would be fascinating. Future studies might increase the sample size by adding more businesses from various sectors, such as financial institutions, and by integrating additional developing market nations.

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WPLYW CECH KOMITETU AUDYTOWEGO NA WYNIKI PRZEDSIĘBIORSTWA – DOWODY EMPIRYCZNE Z KRAJÓW GCC

Streszczenie: Głównym celem tego badania jest zbadanie prawdopodobnego wpływu cech komitetu audytowego (wielkość komitetu audytowego, niezależność komitetu audytowego, spotkania komitetu audytowego oraz finansowa ekspertyza komitetu audytowego) na wyniki przedsiębiorstw notowanych na giełdzie w krajach Rady Współpracy Zatoki Perskiej (GCC). To empiryczne badanie wykorzystuje próbę 281 firm notowanych na giełdzie w sześciu krajach GCC, reprezentujących 1124 obserwacji w okresie czterech lat finansowych (2019-2022). Wyniki z modeli Hierarchicznej Wielokrotnej Regresji sugerują, że tylko dwie z czterech zmiennych niezależnych (niezależność komitetu audytowego oraz finansowa ekspertyza komitetu audytowego) wpływają na wyniki przedsiębiorstw notowanych na giełdzie w krajach GCC. To badanie wnosi cenny wkład do istniejącej literatury, oferując kompleksową analizę wpływu istnienia komitetu audytowego i jego specyficznych cech na wyniki przedsiębiorstw, czerpiąc wnioski z teorii agencji oraz teorii zależności zasobów. Analizując te zależności, badanie poszerza nasze zrozumienie mechanizmów, poprzez które cechy komitetu audytowego mogą wpływać na sukces firmy. Wyniki tego badania mają praktyczne implikacje dla przedsiębiorstw i inwestorów. Dzięki zrozumieniu wpływu cech komitetu audytowego na wyniki przedsiębiorstw, firmy mogą podejmować świadome decyzje przy tworzeniu swoich komitetów audytowych. Mogą priorytetowo traktować określone cechy lub atrybuty, które zostały uznane za pozytywnie wpływające na wyniki przedsiębiorstw, takie jak niezależność, ekspertyza i finansowa znajomość członków komitetu audytowego. Ta wiedza może pomóc firmom w optymalizacji ich struktur zarządzania i poprawie ogólnych wyników. Wyniki mogą być wykorzystane jako przewodnik przez rządy i inne organy regulacyjne przy opracowywaniu przepisów dotyczących kodeksów ładu korporacyjnego, szczególnie tych, które dotyczą tworzenia komitetów audytowych.

Słowa kluczowe: cechy komitetu audytowego, wyniki przedsiębiorstwa, kraje GCC