`

THE INFLUENCE OF AUDIT COMMITTEE CHARACTERISTICS ON FIRM PERFORMANCE: EVIDENCE IN OMAN

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THE INFLUECNCE OF AUDIT COMMITTEE CHARACTERISTICS ON FIRM PERFORMANCE: EVIDENCE IN OMAN

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ABSTRACT

The role of an audit committee (AC) is very significant to stakeholders in influencing the quality of disclosure of financial reporting and in improving market performance. This study examines the influence of audit committee characteristics (AC multiple directorship, AC size, AC independence, AC meeting, AC chairman independence, AC diligence) and firm performance (ROA and Tobin's Q). The population of the study is 82 firms based on the Muscat Stock Market (MSM) listed companies as at 2014 to 2015, excluding the financial and banking sectors. The method of data collection was secondary data, using annual financial reports of firms gathered from Data Stream. The data was analyzed using Stata. The major findings of the study show that audit committee characteristics do not influence firm performance as measured by ROA. However, the study found that AC multiple directorships and AC diligence influence the firm performance as measured by Tobin's Q. The result also showed that the control variables; (firm size and leverage) are significant in influencing firm performance (ROA and Tobin's Q). Therefore, the study recommends future studies to consider taking into account some other variables such as foreign audit committee members, and other variables that may have a significant role in improving firm performance.

Keywords: Firm performance, audit committee, audit committee characteristics, Oman.

ABSRAK

Peranan jawatankuasa audit adalah sangat signifikan kepada pemegang saham dalam mempengaruhi kualiti laporan kewangan dan meningkatkan prestasi pasaran. Kajian ini mengkaji pengaruh ciri-ciri jawatankuasa audit (kesibukan pengarah, saiz, kebebasan, mesyuarat, pengerusi bebas, kesungguhan) terhadap prestasi firma (pulansan atas aset (ROA) dan Tobin Q). Populasi kajian adalah 82 syarikat yang disenaraikan Pasaran Saham Muscat yang tersenarai pada 2014-2015, kecuali sektor kewangan dan perbankan. Kaedah pengumpulan data adalah data sekunder dengan menggunakan laporan kewangan tahunan syarikat dan Data Stream. Data dianalisis menggunakan Stata. Penemuan utama kajian ini menunjukkan bahawa ciri-ciri jawatankuasa audit tidak mempengaruhi prestasi firma yang telah diukur oleh ROA. Walau bagaimanapun, kajian mendapati bahawa kepelbagaian pengarah dan kesungguhan mempengaruhi prestasi firma yang telah diukur oleh Tobin's Q. Penemuan kajian juga menunjukkan bahawa pembolehubah kawalan iaitu saiz firma dan leveraj adalah signifikan dalam mempengaruhi prestasi firma (ROA dan Tobin Q). Oleh itu, penyelidik mencadangkan agar kajian-kajian masa depan mengambil kira pembolehubah-pembolehubah seperti ahli jawatankuasa audit luar dan pembolehubah yang mempunyai peranan yang signifikan dalam meningkatkan prestasi firma.

Kata Kunci: Prestasi Firma, Jawatankuasa Audit, Ciri-Ciri Jawatankuasa Audit, Oman.

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LIST OF ABBREVIATIONS

AC	Audit Committee
CG	Corporate Governance
EBIT	Earnings Before Interest and Tax
GCC	Gulf Cooperation Council
MSM	Muscat Securities Market
NASDAQ	National Association of Securities Dealers Automated Quotations System
NYSE	New York Stock Exchange
ROA	Return on Assets
ROE	Return on Equity
SADGI	Omani National Rice Mills
SAOG	Omani National Investment Company Holding
SEC	Securities and Exchange Commission
SOX	Sarbanes-Oxley Act x
TQ	Tobin's Q
U.S	United States

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

A sequence of well-known accounting fraud and disgraces that happened in recent years such as in Enron in 2001 and the WorldCom in 2002 has call attention of regulators and attracted the investors' consideration globally. The greatly publicized accounting fraud have seriously upset the investor's self-reliance in the corporate financial reporting reliability of the United States (U.S) for instant (Aldamen, Duncan, Kelly, McNamara & Nagel, 2012; Darko, Aribi, and Uzonwanne, 2016). In an attempt to reinstate the investor's assurance, several efforts have been considered to restructure the U.S. corporate governance code and requirement. According to Aldamen et al. (2012) and Weiss, (2005) some studies showed that lack of effective audit committees to oversee the managers' activities was identified as one of the main causes of the Enron and WorldCom failure and accounting fraud. For that reason, the U.S. congress in July 2002, following the scandal the Sarbanes-Oxley Act was enacted also which is known as the Bill of Corporate Oversight. Regarding the efforts of U.S. congress, the National Association of Securities Dealers Automated Quotations System (NASDAQ) and the New York Stock Exchange (NYSE) adopted a different corporate governance rules use for monitoring and dealing with the listed companies that were accepted by the Securities and Exchange Commission (SEC) in November, 2003.

In the same vein, both the roles of new CG codes and the Sarbanes-Oxley Act (SOX) of 2002 heavily relied on the NYSE and NASDAQ, putting more weight on a greater independence on firm's management and the efficiency of the board of directors and audit committees (Al- Matari Al-Swidi, & Fadzil, 2014a; Aldamen et al., 2012; Persons, 2005).

However, these well-known corporate frauds and the Asian financial crisis in 1997 as well as the global economic meltdown of 2008 have highlighted the significant for having effective corporate governance code and practices internationally for the purpose of long-term existence of the corporate businesses (Elghuweel, Ntim, Opong & Avison, 2016; Mokhtar, Sori, Hamid, Abidin, Nasir, Yaacob & Muhamad, 2009).

The major role of effective corporate governance is thus appearing to be as a mechanism for strengthening organizational management structure irrespective of their industry or sector in a country (Aldamen et al., 2012; Baydoun et al., 2012; Davies & Schlitzer, 2008). However, in reality there is no any universal model of good governance to be adopted globally that will suit with the multiple directorship as well as audit committee composition of all organizations. This indicates that every country has its own identity (i.e.: unique code) of corporate governance that is more suitable and highly relevant to their organizational structure and companies listing requirement.

Therefore, implementing effective corporate governance practices, would enriched audit committee and improve monitoring of top management activities in an organization and shrink information asymmetry problems. However, some scholars in the literature argued that establishing effective relationship between audit committees and management would

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improve firm performance (Baydoun et al., 2012; Bronzetti, Veltri, & Mazzotta, 2016; Klein, 1998).

Abor and Biekpe (2005) and Elghuweel et al. (2016) posit that corporate governance is specifically defined as an arrangement and process which were used by organization to enhance business corporate accountability and prosperity with the overall objective of ensuring the value of the long-term shareholder, and considering the interest of other stakeholders. Similarly, Kakanda, Salim & Chandren (2016) and Khatab, Masood, Zaman, Saleem & Saeed (2011) viewed corporate governance as the conventional of procedures, laws, policies and institutions used to persuade the way a corporation is administered or/and managed.

However, most of the prior corporate governance studies conducted focuses mainly on normal market conditions (Baydoun, Maguire, Ryan, & Willett, 2012; Elghuweel et al., 2016). However, this study would be in part differently and describe some of the inconsistent outcomes found in corporate governance and firm performance researches and thereof makes its own contribution. Therefore, this study argues that good governance and effective audit committee would increase firm performance, as suggested and evidence from prior studies of (Khatab et al., 2011; Madakawi, 2012; Mokhtar et al., 2009) then the effect worth studying to understand the phenomenon.

The idea of corporate governance centers on the guideline and interactions between the company management, employees and its shareholders, regulators within or outside the firm and to conclude the way it would be monitored in the relationship between the conflicting interest in running the company's activities (Bansal & Sharma, 2016;

Elghuweel et al., 2016). The role corporate governance mechanism is to link the gap between managers and the firm owners to dodge the negative practices that would damage the company performance at large (Abu Atta, 2003; Baydoun et al., 2012).

In addition, if good governance matters in organizations, then code of corporate governance serves as a critical issue to businesses that required attention and scrutiny to overcome corporate failures (Strandberg, 2001). A typical example is in the corporate scandals of Enron in 2001 and the WorldCom in 2002 that causes the corporation collapsing and business ruin. Kyereboah-Coleman (2007) argues that each organization is denoted by the processes and structures laid down by a country for a corporate entity to follow and to minimize the extent of agency problems as a result of ownership and management control conflicting interest.

The status of corporate governance in enhancing the competitiveness of capital market and boosting the investors domestically and internationally has increasingly apprehended by the government of Oman (Al-Busaidi, 2008). This brings about accomplishing better corporate performance and improving the relationship with the stakeholders and corporate investors (Shankariah & Rao, 2004). Omani authorities in 2001 issued the code of corporate governance that would take care of the firm's corporate operation. In the Gulf Cooperation Countries, Oman was the first to introduce the code of CG and fully adhere to the Omani listed firms in 2004. The CG code set a mechanism for the board of directors' composition and its function, AC characteristics, internal control, external auditors, CG reports, related party transactions and executive management (Corporate Governance Code of Principle, 2002).

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Omani economy in the last few decades has come across a series of changes and reformation which end up increasing the market size to become market oriented economy. Hussain, Hussain & Awais (2015) and Shankariah and Rao (2004) argued that the changes and reformation begins positively from the area of CG which signaled from the financial development experience in the country thoroughly. This raises the expectation of the investors consistently in the country which was induced by the good CG which is very crucial to the stakeholders (Hussain et al., 2015; Shankariah & Rao, 2004).

However, the role of an audit committee playing in organization management is important to the stakeholders as they assist in having better and quality financial reporting that it would encourage the investors and give chances for transparency which would promote the organization integrity and allow public to evaluate market performance (Wild, 1996). Due to the crises, there is improvement and restructuring system in audit committee from the expertise and professional accounting background monitoring mechanism that is suitable to protect a high agency cost circumstances without doubtful or corruption reservation to make the improving of information approach quality flows to the block holders shareholders and public interest (Bansal & Sharma, 2016; Pincus, Rusbarsky & Wong, 1989). This makes it to become a key component in the monitoring function and increase public and regulatory interest and more focus on its activities (Abbott & Parker, 2000).

Researchers indicates that from the financial literature available, expert highlighted that the changes in the AC' practices, structure and their focus in improving and monitoring

the top management activities would enhance the organizational performance (Madawaki, 2012; McDaniel; Martin & Maines, 2002). This positively contributes to the quality of firm performance and consequently this would improve the firm market value (Ghabayen, 2012; Wild 1996; 1994).

Accordingly, audit committee activities can be the best resolutions to minimize the risks and uncertainties inherent in the modern corporate environment. Similarly, the AC position and their activities in the organization would attract prospectus investors and minimize the corporate risk of a firm (Ghabayen, 2012). Hence, for that reason expectation about the audit committee is so high and more dynamic and participative in safeguarding the suitable management of the firms. Madakawi, (2012) submit that effective audit committee is highly expected to solve the agency conflicts and thus would improve the financial reporting quality. This indicates that effective corporate governance would enhance the processes that administer and direct company managers in taking decisions which is consistent with the shareholders' goal of wealth maximization (Akbar, 2015; Ghabayen, 2012). The quest for the mechanism is to ensure high quality and reliable financial reporting and essentially focused on the structure of the audit committee, who's their main function is to supervise the financial reporting processes as well as the audit of financial statements for improving firm performance (Madawaki & Amran, 2013).

The audit committee's is highly significant in implementing the corporate governance codes and in improving firm values and performance (Al-Matari et al., 2014a). In addition, in implementing CG principle, audit committees could remain independent and

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discharge their duties with outstanding profession, diligent and care. In some cases of financial misappropriation, the audit committee is thought responsible and blamed for the fraud that implies the inadequacy of transparency of financial information and reduces information asymmetry that would enhance the company value (Bhagat & Jefferis, 2002; Heenetigala & Armstrong, 2011).

Transparency and accountability in organization are required for attracting capital funds and investors on one side and the financial confidence and firmness on the other side. As the business setting change and become high viable and complex globally, the risk and uncertainty are also proficient characteristics related to present business activities (Ghabayen, 2012). However, the corporate government subject has stimulated research interest to resolve organization crises, this would help principals and agents (management) to restructure and implement corporate mechanism and make proper provision for agency cost especially with the publicly quoted firms (Okougbo, 2011).

However, the concept of firm performance supports the effectiveness and efficiency of financial resources in achieving the organization objectives and on the other hand shareholders' wealth maximization. Because potential investors heavily depend on financial statements prepared and disclosed by managers monitored and certified by the auditors in evaluating the firm performance. Nevertheless, it is widely assumed to some extent that managers tend to influence accounting information in an attempt to present attractive information in the financial statements (Rani, 2011). However, most of the time investors change their decisions based on the accounting information presented in the financial statement. According to Barth, Beaver, and Landsman (2001) and Hellstrom

(2006), the accounting information will be value relevant to users if the information found in the financial report is reflecting the actual and values of the stock prices.

Hence, in increase the significance of accounting information and to eliminate the effect of dishonest functions provided by the managers, strong and effective control mechanisms, such as strong audit committee is required. Strong and effective audit committee will enhance corporate governance and good governance can improve stakeholders' confidence and also boost firm performance (Rani, 2011). Presence of a financial skillful in an audit committee can increase the firm value which in turn significant influence in stock prices of the firm and impacted on firm performance at long run (Wallace, Biao & Weihong, 2004). Meanwhile, having financial expertise in the audit committee members also can enhances the firm accounting conservatism and this would enable for critical evaluation of the firm managerial decisions (Krishnan & Visvanathan, 2008).

Therefore, the study is aimed to perceive the relationship between the AC characteristic (AC multiple directorship, AC size, AC independent, AC meeting, AC chairman independence and AC diligence) and firm performance (ROA and Tobin's Q) of non-financial companies listed on the floor of Muscat Securities Market (MSM) of Oman. The study will use the annual financial statement of the listed companies in the 2014 and 2015 to test the study variable and how each influences one another.

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1.2 Problem Statement

Following the financial scandal in the last decade involving world large corporation such as Enron, WorldCom among others and the loss of confidence in some corporate institution in Asia, Europe and America encourage the policy makers and various government to change policies and enact new legislation use to restored good governance and effective firm operations (Bronzett et al., 2016; Madawaki, 2012). In addition, these financial crises affected the financial market in Oman by falling of its large corporate shares value of corporations such as Omani National Investment Company Holding SAOG and National Rice Mills SADGI (Elghuweel et al., 2016). However, this phenomenon is not only affects the large corporations but also several smaller companies were affected which leads them to required assistance from the government (Baydoun et al., 2012; Elghuweel et al., 2016).

The problems were stressed and escalated at the crisis period that includes the collapse of many businesses and others loss values which as a result prompted the companies and government getting a significant short term debt to without the awareness of shareholders (Baydoun et al., 2012; Madawaki & Amran, 2013). The credits were covered through the accounting approaches and the systems of invention. However, as a reaction to the failure of some world top corporations such as WorldCom and Enron, through studies was conducted and the result indicates that the main causes behind the problem was the mismanagement of the financial statements due to weak audit committee and good governance in the firms and organization (Al Matari et al., 2014a; Elghuweel et al., 2016). As such, great attentions have been needed and draw attention to CG as a

mechanism to defend investors' right and ensure right management practices (Bøhren & Strøm, 2010; Brown & Caylor, 2006; Jackling & Johl, 2009; Khanchel, 2007; Mokhtar et al., 2009).

Consequently, the question of CG has become very high and commonly widespread problem in the commercial setting and investment especially in the Gulf nations that required attentions of researchers as well as academia (Al-Hussain & Johnson, 2009; Elghuweel et al., 2016; Hussain et al., 2015). The problem significantly gained attention as a result of some identified factors in the literature as well as the region such as in enormous developments, lack of effective audit committee and governance, fraud, laxity, poor corporate governance performance, insignificant dealings with stakeholders, lack of effective means and process of protecting the rights and privileges of shareholders and predominance of managerial and financial corruption that cause to the downfall of the nation's major economies in the last few years (Al-Manaseer, Al-Hindawi, Al-Dahiyat, & Sartawi, 2012; Hussain, et al., 2015).

The concept of the CG postulate that sharing of the responsibilities between the stakeholders should be based on the guidelines and procedures for making decisions about corporate issues (Obiyo & Lenee, 2011). Therefore, the perception of CG in developing countries emerged to standardize and enhance the relationships between the audit committees, shareholders and stakeholders interest in the company's and to improve performance (Yasser, Entebang, & Abu Mansor, 2011). This would highly improve the corporate governance which in turn strengthened the firm performance and as a result of effective audit committee.

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The role of audit committee's in the application of CG principles and in improving the value of the firm is substantial. In line with the principles of CG, ACs would be independent and conducted their responsibilities with due care and professionalism. For instance, in case of financial handling, the audit committee would be accountable and that is why the transparency of financial information is needed to reduces information asymmetry and also to improve the firm value (Bhagat & Jefferis, 2002; Heenetigala & Armstrong, 2011).

According to some literature, the successive crises of weak governance and the ineffective of public and private companies in the Muscat Securities Market (MSM) of Oman have led compounded issues and problems found in firm performance and inadequate accountability (Al-Hussain & Johnson, 2009; Elghuweel et al., 2016). These highlighted the importance for having effective and competent audit committee's that is independent and suitable for policy actions (Al-Rashidi & Jamal, 2010).

As a result of the above discussion, the main emphasis was made upon the deployment of CG, which is solidly deliberated by several studies as one of the solution to the problems of financial market crisis in developing countries (Hussain et al., 2015). Therefore, the present study was an attempt to study the impact of audit committee in strengthening the corporate governance that would yield good governance and hence improve performance of firms. Therefore, the main concern of the study is to examine the relationship between the audit committee and company's performance as the main contribution of the study in the literature of corporate governance. The study was motivated by some inconsistent result found in the literature as how audit committee would influence good governance

and hence their relationship with firm performance (Baydoun et al., 2012; Bronzett et al., 2016; Kakanda et al., 2016). For instant, study of Al-Hussain & Johnson (2009) and Shleifer and Vishny, (2000) found the positive relation between the CG and firm performance and further suggest future studies to consider audit committee characteristics association with firm performance.

Previous studies concerning firm performance, corporate governance and audit committee in Gulf countries are very limited (Hussain et al., 2015). This motivated the current study especially in the Oman and other Golf state in the region. Some of these scanty studies includes the study of Al-Hussain & Johnson (2009), Al-Matari, Al-Swidi, Fadzil & Al-Matari (2012), Ghabayen (2012) all in Saudi Arabia; Aljifri & Moustafa (2007) in UAE; Al-Matari, Al-Swidi, Fadzil & Al-Matari (2012) in Kuwait; Al-Matari et al. (2014a) in Oman and lastly Najjar (2012) in Bahrain. In addition, Darko et al. (2016) submit that there are still limited studies on corporate governance and firm performance in relation to audit committee characteristic. They further suggest that future studies to consider audit committee characteristics and firm performance relationship.

AC characteristics have a significant influence on firm performance as stated by the literature. Amer, Ragab and Shehata (2014) stated that effective AC would develop stakeholders' expectancy and these would enhance financial reports of the firm which in turns affect its performance. Bronson, Carcello, Hollingsworth and Neal (2009) argued that the effectiveness of financial reporting broadly relied on vibrant audit committee that is capable, committed, qualified and independent most reliable to the public interest. Contessotto and Moroney (2013) added that effective AC would improve the financial

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statement integrity of a firm and reduces the inherent risk by improving the reporting quality. The studies all show that effective AC would improve financial report, whereas a sound and vibrant financial reporting would explain how the firm is performing. That is indirectly, AC is influencing and impacting on firm performance.

In Oman, the link between firm performance and audit committee characteristics has been seriously ignored in which little was known in the literatures available. Furthermore, scholarly literature on the relationship between audit committee characteristics and their effects on firm performance is still lacking in the Golf countries and Oman in particular. Oman is among the first nation in the gulf cooperation council (GCC) in year 2002 that implemented the code of corporate governance (Hawkamah on CG Codes of the GCC) and is the only nation among GCC member state which is not one of the member of Organization of Petroleum Exporters Corporation (OPEC) in the region. Thus, this study was proposed to evaluate the association between characteristics of audit committee and their impact on firm performance in non-financial sector on the main board of Muscat Securities Market (MSM) Oman in the year 2014 and 2015 (2 years).

Specifically, this study attempts to explore the relationship between the audit committee characteristics (AC multiple directorship, AC size, AC independent, AC meeting, AC chairman independence and AC diligence) and firm performance, measured by ROA and Tobin's Q.

1.3 Research Questions

This study would examine the influence of audit committee characteristics on firm performance in Oman. Specifically, the following research questions were proposed to guide the study:

1. Does multiple directorship in audit committees influence firm performance?
2. Does size of an audit committee influence firm performance?
3. Does AC independence influence firm performance?
4. Does AC meeting influence firm performance?
5. Does AC chairman independence influence firm performance?
6. Does AC diligence influence firm performance?

1.4 Research Objectives

Followings are the objectives of this study:

1. To examine how multiple directorships in audit committee influence firm performance.
2. To examine how audit committee size influence firm performance.
3. To examine how audit committee independence influence firm performance.
4. To examine how audit committee meeting influence firm performance.
5. To examine how audit committee independence chairman influence firm performance.
6. To examine how AC diligence, influence firm performance.

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1.5 Scope of Research

This study targets firms listed on the stock exchange of Oman. The study was carried out mainly on listed companies that are functional in the non-financial sector of *Muscat Securities Market (MSM)* in 2014-2015 i.e. 2 years. The study also used only audit committee characteristics include (Multiple directorships in AC, AC size, AC independence, AC meeting, AC independence chairman and AC diligence) and while firm performance is measured by the ROA and Tobin's Q.

1.6 Significance of the Study

This study is going to contribute both theoretical and practically as follows:

1.6.1 Theoretical Contribution

This research focuses on CG because CG in Oman is at its early stage. Appropriate submission of corporate governance and its practice are not efficient in Oman yet.

This implies that, this study will establish an empirical relationship of audit committee and its impacts on firm performance. CG is an essential factor of a company's performance and the development of the country economy.

1.6.2 Practical Contribution

This study is going to be conducted in non-financial sector of Oman. It will be helpful for Oman government, regulatory policies and investors advantage competitive edge by examining CG practices in the country. This will boost the quality of firm performance.

The findings will examine the performance of the organization in order to take right measures to guarantee effective implementation of corporate governance practices in Oman.

1.7 Organization of the Study

Chapter one is discusses research background, problem statement, research questions, research objectives, scope of study, significance of study and is the organization of study.

Chapter Two reviews the literature related to studies on the relationship between audit committee characteristics and firm performance. In Chapter Three discusses the research methodology, which comprises all of the followings: theoretical framework, hypotheses development, research design, data analysis and ends with chapter summary. Chapter Four discusses the study analysis and provides data analysis that includes: descriptive statistics, correlation analysis, heteroscedasticity, and regression analysis and discussions of results.

Finally, Chapter Five represents the conclusion of this research. It summarizes the study, provides the contribution of the study, and the limitation and recommendations for future remarks.

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CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter search for the recent empirical literatures on the audit committee characteristics (multiple directorships, AC independence, AC diligence, AC size, AC chairman independence and AC meeting) as independent variable and firm performance (return on asset and Tobin's Q) as dependent variable. Similarly, the chapter discusses the agency theory as the underpinning theory of the study. The chapter ends up with the summary of the discussion and how the variables of the study are related with the theory.

2.2 Firm Performance

From the accounting literature perspective, firm performance is termed as a useful hinge on a company performance and its profitability of stocks in the capital market. Generally, the success of the firm is explained by its performance and its stock value over a period of time (Khatab et al., 2011). Meaning that, firm performance mostly is being measured based on profitability of its stock in the capital market and the dividend paid. However, efforts have been expended in determining the right measurement that would explain the concept of the firm performance. To determine the right measurement of firm performance, a company is able to measure its performance through different variables such as return on assets, returns on equity and Tobin Q as suggested in the literature (Lam & Lee, 2008; Yilmaz & Buyuklu, 2016).

According to Madakawi (2012) and Snow and Hrebiniak (1980) stated that to date, there is no particular measurement that is universal to measure all aspects of firm performance as a single unit wholly. To some researchers like Iswatia and Anshoria, (2007) describe firm performance as a function or the ability of an enterprise to manage its resources both materials and human in an efficient and effective way to gain competitive advantage over and above its rival in an industry.

Based on the available literature, there are basically two broad categories used to measure the firm performance namely; the accounting oriented measurement and the market oriented measurement (Alm & Winberg, 2016; Khatab et al., 2011). In addition, Furtado and Karan (1994) provide evidence that management board prefer using accounting measurement oriented than market oriented measurement in evaluating managerial and firm performance. Although, in the literature a quite different meaning of firm performance has been propose and discussed accordingly (Barney, 2002).

On the other hand, the available literatures on corporate governance practices widely recommend the used of accounting oriented measurement performance. The measurements include return on assets (ROA) and return on equity (ROE) while the market oriented measurement includes Tobin's, as alternatives for firm performance (Conyon, & He, 2016; Hermalin & Weisbach, 1991; Lam & Lee, 2008). Within the accounting performance measurement return on assets (ROA) has an advantage over return on equity (ROE) as argued by scholars and practitioners (Jong, Gispert, Kabir & Renneboog, 2003).

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In the same vein, Khatab et al., (2011) stress that ROA provide the firm management some sort of ideas as how efficient they are using its available assets to generate earnings and create value to the firm stock. Similarly, return on assets is simple to understand and often computed by dividing the profit after tax by total assets alternatively (Yilmaz & Buyuklu, 2016). It can also be determined by dividing earnings before Interest and Tax (EBIT) by total assets.

Tobin's Q simply refers to a traditional measurement of anticipated long-run of firm performance (Bozec, Dia & Bozec, 2010). The engagement of the equity market value could indicate the company's future growth opportunities and which would stem from exogenous factors to managerial decisions that is indicated by the company level (Shan & McIver, 2011). Tobin's Q-ratio (Q), is a hybrid measurement in nature. It is measured by dividing the amount of the market value of the equity together with the book value of debt by the total book value of the total assets (Alm & Winberg, 2016; Conyon, & He, 2016; Jong, Gispert, Kabir, & Renneboog, 2003). But, the stock returns are taken by Tobin's Q with the aim of evaluating the firm performance, which is inclined to highlight the expected future performance as opposed to actual firm performance (MacAvoy & Millstein, 1999).

Hill and Snell (1989) argued that firm performance measurements such as Tobin's Q and financial ratios has disadvantage of accuracy compared to other measurement like technical efficiency whose constitute accurate measurement. Nevertheless, this study used return on assets (ROA) and Tobin's Q to measure the firm performance. These two variables are suggested in the literature in which some studies found mixed and some in

conclusive result about the variables in measuring the firm performance effectively. Therefore, this study used the same variables to affirm the effectiveness in measuring the firm performance from Muscat Stock Market listed companies in Oman.

2.3 Audit Committee (AC)

Normally, an audit committee simply refers to a constituted body that is giving authority and responsibility to oversee the financial reporting of a firm and report their finding to the top management for decision making (Ghabayen, 2012). The committee is expected to provides an invaluable information and communicates to the board of directors of the firm. Also, the committee is responsible for mediating between the external and internal auditors and assist the board to ensure all the related issues on audit are covers and treated diligently (Al-Matari , Al-Swidi, Fadzil, & Al-Matari, 2012; Madakawi, 2012).

The CG Law in Oman requires that the AC is to include at least three non-executive members of the firm's board of directors. Also, majority of the AC members among which the chairman of the committee is included should be independent directors of the firm. In addition to the requirement of AC in Oman, among the members of the AC at least one must be expert in accounting and financial matters and the other members should have knowledgeable on either accounting or finance practice (Al-Matari et al., 2014).

In this study, audit committee is the independent variable as explain at the beginning of the chapter. For that reason, this study considered audit committee characteristics as

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follow: AC multiple directorship, AC size, AC independence, AC diligence, AC chairman independence and AC meeting.

2.3.1 Multiple Directorships in Audit Committee

Multiple directorships are described as the number of director that occupied positions and be the members of the audit committee (Ismail, Iskandar & Rahmat 2008). Based on the agency perspective, multiple directorships in audit committee are required for carrying out its monitoring responsibilities and task delegated by the board in order to add value to firm. In addition, Haniffa and Hudaib (2006) and Shepardson (2011) said that the concept of multiple directorships in the board of directors and multiple directorships in AC may be explained as a member of audit committee or otherwise who holds a position on more than one board of directors of a firm. This is consistent with the resource dependence theory, which relied on the external resources in order to improve the firm performance (Kiel & Nicholson, 2003; Shepardson, 2011). The multiple directorships would facilitate to a greater degree of access to different linkages and resources, which can help the firms to fulfill its full ability to operate efficiently. Ismail et al. (2008) and Mace (1986) suggests that directors outside the AC are perceived valuable to the firm because they would provide visibility, reputation and commercial contacts to the firm executive's thereby increasing performance.

Additionally, studies have shown that multiple directorships may improve the audit committee members' contributions toward the carrying out of their duties in an effective manner. Boo and Sharma (2008) and Sharma and Iselin (2012) shows that audit committees whose members have multiple directorships request for a more thorough

audit to safeguard their reputation capital and to contribute highly to superior reporting quality.

In a situation where audit committee members work on a multiple directorships function, they are anticipated to work lightly in their monitoring responsibilities toward firm effectiveness because of their nature of the duties. For instance, Sharma and Iselin (2012) indicate that financial misstatements are related with AC multiple directorships. Therefore, multiple directorships could either enhance or weaken the effectiveness of AC because of competing influences and interest (Hunton & Rose 2008). On the other hand, multiple directorships provide AC with a greater experience, and such directorships are often perceived as bringing high-quality monitoring, strategic knowledge and resources to the firm and improve financial performance (Fama & Jensen, 1983; Sharma and Iselin, 2012). Having multiple directorships in the audit committee may indicate additional contextual background of skills, experience, and knowledge to conduct their oversight responsibilities which could effect on the firm performance (Shepardson, 2011).

Consequently, from the agency theory perspective, prior studies such as Ruhi (2014) Shivdasani (1993) and Song and Windram (2000) noted that multiple directorships could lead to a time and commitment restrictions for audit committee members when it comes to effective performance. Moreover, members of the committee that are holding directorship positions of different firms have limited time to carry out their responsibilities all over due to the diversity and task ahead of them (Core, Holthausen & Larcker, 1999; Sharma and Iselin, 2012).

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However, Aldamen, Duncan, Kelly, McNamara, and Nagel (2012) argued that multiple directorships in audit committee affect firm performance. Hence, those who hold different directorships on audit committees have additional responsibilities, and therefore may not be able to adequately monitor the management, thus inducing additional agency costs. A number of researches imply that the holding of numerous directorships negatively impacts on the firm performance (Fich & Shivdasani, 2006; Mace, 1986). Beasley (1996) conclude that positive relationship exists between potentiality for high fraud in firm and multiple directorships when the multiple directorships were among the audit committee members.

2.3.2 Audit Committee Size

The audit committee size is considered as one of the elements of audit committee characteristics. AC size refers to the number of members included in the committee and their characteristics such as experience, knowledge, skills as well as educational background (Al-Matari et al., 2012). In Oman, listed companies have been required to adopt audit committee size made up of at least three members from different background. The audit committee capable for effective overseeing of the management activities is measured by the number of members included in the committee that work together for the efficient firm performance (Al-Matari et al., 2014; Hsu & Petchsakulwong, 2010; Obiyo & Lenee, 2011).

Similarly, the size of the committee matters in determining the success of their services and how relevant they are in increasing the firm value (Al-Matari et al., 2014a). Moreover, the bigger the committee size and comprises the members with different

characteristics, the better it would be to the firm performance (Al-Matari, Fadzil & Al-Swidi, 2014b). However, small size committee lacks the merit of skills, knowledge and background diversity largely enjoyed in the big size and hence, is ineffective (Al-Matari et al., 2014a). Agency theory supports that the bigger the committee size the better the anticipated firm performance would increase and the vice versa.

Kiger and Scheiner (1997) suggest that greater numbers of people partaking in a specific activity significantly declines the potentiality for wrongdoing owing to the fact that conspiracy in such a situation is so difficult. Furthermore, Yatim, Kent and Clarkson (2006) acknowledged that audit committees that are larger in size are capable for improving financial reporting quality. Similarly, large audit size is likely to effectively reduce debt financing costs (Anderson, Mansi & Reeb, 2004). Kajol and Sunday (2008) contended that an increased number of AC members shows that more experts would be available for the overseeing of firm internal controls and financial reporting.

Previous studies that study the association between AC size and firm performance conclude that there is relationship between the variables (Ghabayen, 2012; Ruhi, 2014). But, Chan and Li (2008) in their study show a negative relationship found between firm performance (Tobin's Q) and audit committee size.

2.3.3 Audit Committee Independence

Audit committee independent is also an important element of audit committee and crucial in corporate governance. Bansal and Sharma (2016) postulates that independent of the audit committee could through different monitoring processes, would keep on checking

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and evaluating the faulty conduct of managers as they are independent from the management. Cohen (2011) argued that AC independence is a significant part of the audit committee effectiveness of a firm. Accordingly, an independent AC could support in confirming the credibility of the financial reporting process by maintaining an effective check on the management distorting of data's and managers self-centered undertakings.

Equally, corporate governance codes need firms to fixed up audit committees and ensure their independence accordingly. Bansal and Sharma (2016) and Beasley (1996) submit that companies which have many independent members in their ACs composition have a slighter possibility of becoming a misappropriation victim. Bukit and Iskandar (2009) recommended that management of earnings would be turned-down by effective independent ACs. When the AC is independent then, the work of the committee would be more fair and fraud occurring in the companies would be restricted efficiently (Yunos et al., 2014). Because, the committee independent members would fairly study into the firm financial statements and notice all its components such as: total assets, net income, equity and sale which signify the financial position and performance of the company (Sarkar, 2013).

Arslan, Zaman, Malik and Mehmood (2014), Bouaziz and Triki (2012), and Yasser et al. (2011) stated that independent ACs would improve the audit reports value and boost firms' performance. This is because the more the independent of the audit committee the higher its add value and help in monitoring and improving the committee ability (Bansal & Sharma, 2016).

Audit committee in every organization should be transparency and openness to insider and outsider stakeholders. In order to promote economic growth of a firm, the audit committee must include at least three directors and two-third of them could be non-executive independent directors (Al-Matari et al., 2014).

Audit committee that contained more members of non-executive directors is considered to be more independent compared to the one that has more members from executive directors (Mohd & Takiah, 2009). Furthermore, external AC members have a substantial role to play by confirming auditing processes followed the corporate governance practices (Swamy, 2011).

Many researches that examined the relationship between the firm performance and AC independence showed a positive relationship. The study of Erickson, Park, Reising, & Shin, (2005) tested the association between the firm value and AC independence using Canadian public companies data from 1993 to 1997. Their result shows positive relationship exist between the AC independence and firm performance measured by Tobin's Q.

Also, Chan and Li (2008) studied the effect of AC independence on performance of firms in which the Tobin's Q measurement was used to measure performance by using 200 companies as a sample size. There results indicate that audit committee independence has positively impacted on the firm value and performance. In addition, Ilona (2008) examined the relationship between firm performance and AC independence in which ROA was used to measure performance by using a sample size of 133 firms listed on

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Bursa Indonesia; her result indicates that firm performance is positively related with audit committee independence.

In contrast, Weiss (2005) studied whether the audit committee independence has relationship with firm monitoring performance and effectiveness. Firm monitoring effectiveness includes earnings quality, value relevance of earnings and return on assets. He analyzes 227 firms from 2000 to 2001, and in addition 81 firms in 2003, he indicates that there is no established relationship between AC independence and the firm monitoring effectiveness.

Moreover, Abbcott, Parcke and Peters (2004) investigated whether AC independence is less probable to experience financial reporting restatement using a sample of 88 restatement companies and their matched control companies. They conclude that there is negative relationship between AC independence and restatements. This finding suggests that independence of AC reduces the probability of the restatement.

From the above discussion it indicates that AC independent is positively related to performance as most of the reviewed literatures conclude. However very few studies record negative relationship.

2.3.4 Audit Committee Meeting

Another important characteristic and factor that is related in determining firm performance in this study is audit committee (AC) meeting. Al-Matari et al., (2014a) describe the audit committee meeting as the degree or frequency at which the committee is meeting together to digest the issues of the firm and how the problems identified would

corrected through corporate governance process. It is anticipated that a proactive AC is a committee that meets often to deliberate on the firm performance and how to improve the firm effectiveness in terms of monitoring and management (Bansal & Sharma, 2016). Any audit committee that is not often meet or rarely meet is considered as an inactive and is less likely to monitor and overseeing the firm management activities effectively (Amer et al. 2014). According to the Oman corporate governance regulations, the audit committee is required at least to meet 4 times a year with the majority of independent directors shall present in all the meeting.

Bansal and Sharma (2016) state that frequent AC meetings would improve the firm performance and will serve as a CG mechanism. This would be due to the need for timely uncovering of financial statement fraud and misappropriation and to present the actual financial status to the board of directors. Menon & Deahl Williams (1994) explained that the number of AC meetings would determines the degree and level of AC activity and their commitment to the firm performance. Abbott, Parker, Peters and Raghunandan (2003) added that the regular meetings of AC would lead to the enhancement of the financial accounting methods which on the other way leads to overall firm performance. Al-Mamun, Yasser and Rahman (2014) documented that frequent audit committee meetings could help in reducing information asymmetry and agency problems of a firm by providing timely and fair information to shareholders and investors.

A study of Amer et al. (2014) based on 50 listed companies in Egyptian stock market found that audit committee meeting is insignificantly related with ROA and positively significantly associated with ROE. Kang and Kim (2011) studied on 1104 non-financial

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firms listed on Korea Stock Exchange over the period from 2005 to 2007 and found Tobin-Q is positively associated with frequent audit committee meeting. Moreover, Hsu (2007) investigated the relationship between AC meetings and firm performance using ROA and Tobin's Q as a firm performance measurement. He used a sample size 226 firms in U.S., his result indicates that there is a positive association between audit committee meetings and firm performance.

Several studies have been conducted to establish the association between the AC meetings and the firm performance and they concluded inconsistent result and conclusions. Al-Matari et al. (2012), Mohd & Takiah (2009) and Rebeiz & Salameh (2006) both in there different studies found that there is no relationship between firm performance and AC meeting.

From this literature we conclude that there is a mixed result in the previous studies even though the positive relationship was recording higher than the negative one.

2.3.5 Audit committee chairman independence

Audit committee chairman shall be an independent director and also shall not be the chairman of the board of directors. The chairman of audit committee has the power to govern the committee agenda and board meetings and also likely to impact on the market's and the extent of the financial reporting process as well as managerial monitoring decision (Habbash, 2011).

Aldamen, Duncan, Kelly, McNamara and Nagel (2012) argued that, the chairman of the audit committee would be independent and the most experienced and skillful member of

the committee because of their crucial role in the firm. The chairman's function is to accomplish the committee's agenda and among the forefront is the relationship with the external auditor and also to effectively run and coordinate the audit committee meetings efficiently (Aldamen et al., 2012). The chairman of the committee however, is suggested to be selected from the independent directors agreed by the board of directors (Al-Matari et al., 2014a).

Al-Zyoud (2012) argues that it is not ideally possible to improve the financial quality and integrity of a firm when the top hierarchy officials of the firm are not really independent. Because the independent chairman of audit committee is anticipated to be with less biased behavior when it comes monitoring and controlling management activities related to the firm and crucial decision taking financial and otherwise. Thus, entrusting power of the CEO and the independent chairman in different persons would decrease the power base, single individual, which could finally enhance the ability of the boards to exercise effective control process (Marrakchi Chtourou, Bedard & Courteau, 2001).

From this literature we conclude that there is a mixed result in the previous studies even though the positive relationship was recording higher than the negative one. This indicates that audit committee chairman has effect on the firm performance.

2.3.6 Audit Committee Diligence

Audit committee diligence is another characteristic of the audit committee. The average level of the audit committee members' participation in the meeting and related activities is a measurement of AC diligence (Barros, Boubaker, & Hamrouni, 2013). An

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enhancement in audit committee diligence through frequent audit committee meetings would increase the attendance of meeting of the director in audit committee and losing their busy-boarding (Narayanaswamy, Raghunandan & Rama, 2015).

In order to be consistent with the suggestions of prior studies conducted by Hsu and Petchsakulwong (2010), and Kalbers and Fogarty (1993) that, the audit committee diligence is related to audit committee effectiveness and firm performance. In the same vein, Hsu Petchsakulwong (2010), Menon and Williams (1994) claimed audit committee diligence is determining by the regularity or rate of meetings attended.

A study by Haji-Abdullah and Wan-Hussin (2009) shows that the frequent attendance of AC meetings is not significantly related to the quality of firm financial reporting of a firm. But in contrast, Barros et al. (2013) argue that one of the responsibilities of the audit committee members is attending meetings and that by doing so they have a strong commitment to earnestly perform their supervision duties. In addition, Haji-Abdullah and Wan-Hussin (2009) argued that the level of attendance of audit committee members can also be used to measure the activeness of audit committee members. If the frequency of meetings is high, then diligence in the committee is achieved. Although, when the attendance level is too low, this may possibly impair the effectiveness of the audit committee to effectively discharge their duties appropriately.

DeZoort, Hermanson and Archambeault (2002), claimed that AC diligence as a proxy reflecting the number of annual meetings attended and the effort invested by the committee in its attempt to perform oversight duties. Audit committees that meet regularly are more probable to become aware of financial reporting issues and able to

detect fraud that may eventually affect the quality of reported earnings and firm performance.

From the above discussion about the audit committee diligence, it clearly shows that frequent attending of the meeting has impact on the firm performance in difference ways. However, this study would use the variable to measure the firm performance in firms listed on Oman stock exchange to re-determine the relationship between the AC diligence and firm performance.

2.4 Theoretical Perspective - Agency Theory

Agency theory is a theory basically builds on the ideas of separation of actual owners of a business and manager who take care of managing the business i.e. principal and agent. According to Jensen & Meckling (1976) the theory provides a basis connection between the firm performance and CG. Within its domains, the agency theory context perceives firms' relationship between the principal and its client is that the later is to take charge of the firm activities by overseeing its managerial operation on behave of the former i.e. principal.

On the other side, the agent generally is expected to perform according to his personal interest and the principal is expected to monitors the agent's actions and behavior of the agent by adopting a governance mechanisms process (Jensen & Meckling, 1976). Subsequently, as CG mechanisms ought to provide other checks and balance on management behavior, then the governance mechanisms for that reason not moderate only the probability. Moreover, it is also assume that the firm management would use the

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information asymmetry to optimize their utility instead it is equally to compelled the managers to act in a manner that could increase shareholders' value and improve firm performance (Chen & Jaggi, 2000; Eng & Mak, 2003; Gul & Leung, 2004). But, Jensen and Meckling, (1976) said that the dispute or conflicting of interest bound to happened between the shareholders as principal and managers as client or agent could also widening the agency gap and also increase its cost.

Henry and Association (2007) added that effective and efficient controlling mechanism in CG would simplify the interest alignment between stakeholders and the AC members. That arrangement would reduce the company agency costs thus, enhance the company performance. The fundamental assumption of the agency theory is that, the agent is often narrowly put up their interest in taking decision in the firm and at that point the AC is expected to take them back to act in a better way to implement good governance mechanisms in order to regulates agents' decision-making and thus to improve performance of companies.

Among the measures taking in the firm to monitor management activities and also to minimize the agent self-fish interest is by the establishment of the independent AC. Moreover, in order to reduce the information irregularities and manipulation of financial statement by the agent to protect it interest, it is required for the governance mechanisms to have a board subcommittee that comprises of directors that have knowledge, skills, experience and above all independent to minimize the managers self-fish egos (Wiseman et al., 2012).

In general, this theory would serve as a gauge to weight the conflicting interest of principal as business owners and the agent as the management team that can oversee the business affairs. Therefore, this theory is suitable to the present study in describing the relationship between the audit committee characteristic as an agent of the theory and the firm performance or owners as the principal side of the theory. Meanwhile, both the two, each is always willing to achieve its goals at the expense of other. No doubt that the agency theory feed this study.

2.5 Summary of the Chapter

This chapter provides a review of literature of previous studies on audit committee characteristics and firm performance. Various conclusion and different result were documented from the literature with clear proof. From the mixed and in consisted result shown this study would test the variables as suggested in literature. Finally, the chapter ends up with the underpinning theory of the study. The theory was agency theory and it was deliberated accordingly and how it is related to the present study.

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CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter would explain the research design, theoretical framework and hypotheses development. Also in the chapter the process of collecting data, population of the study, sample size as well as variables measurement was describing. Finally, the summery of the chapter was provided at the end of the discussion.

3.2 Theoretical Framework

The major problem of agency theory is that, the theory was builds on the conflicting interests between the management as an agent and the shareholders as a principal in order to reduce agency cost on one side, and financial misreporting as well as information asymmetric instead.

From the agency perception, firms required corporate severance mechanisms in order to mitigate the agency misfortunes. Additionally, agency theory is thought to offers a source of corporate governance using the internal and external machineries. Moreover, the theory postulates how the effectiveness of audit committee relate to firm performance (Kyereboah & Biekpe, 2006).

The influence of audit committee characteristics on firm performance is illustrated in Figure 3.1

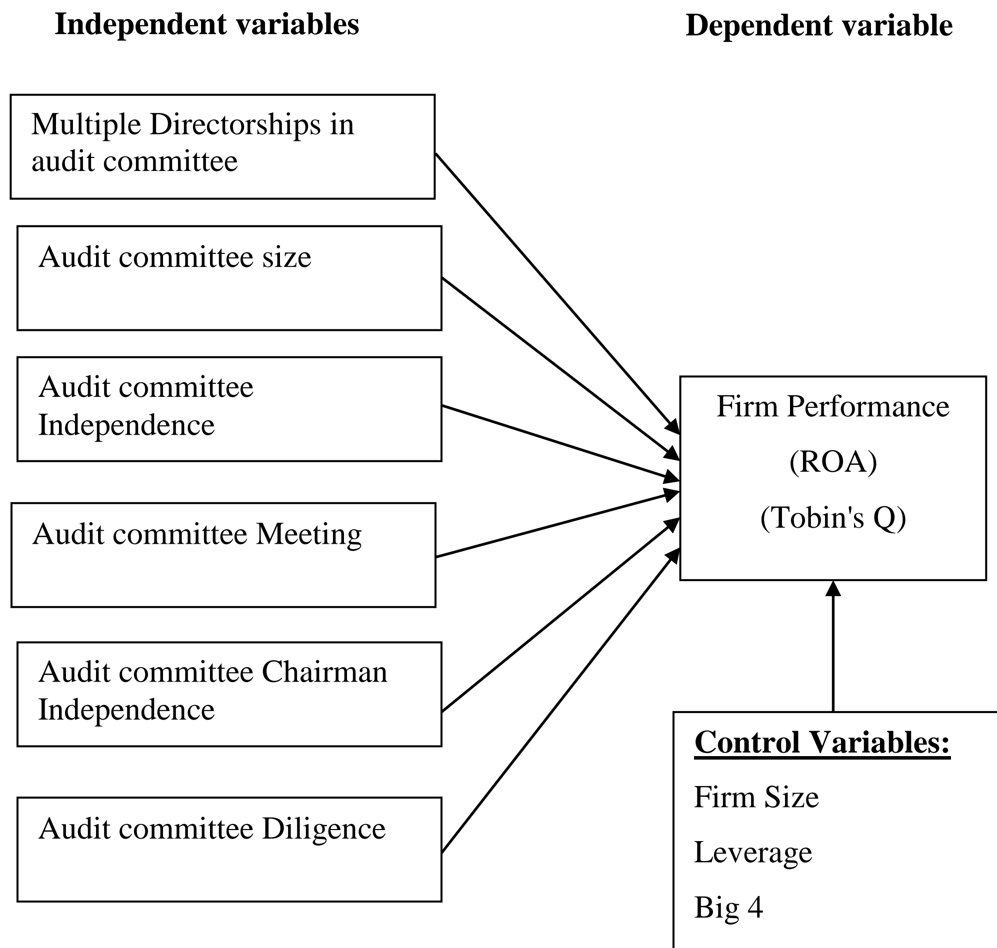

Fig 3.1 *Theoretical Framework*

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3.3 Hypothesis Development

The following hypothesis are developed under their distinctive variables. Dependent variable was discussed first and it would be measured then followed by the independent variables.

3.3.1 Dependent Variable - Firm Performance

Mostly, the successful of any business set up is largely depends on its performance and its stock value for a certain a period under consideration (Khatab et al., 2011). This implied that, firm performance is very important and justify the firms' values in term of profitability of its stock in the financial market. The yardstick uses normally to measure the firm performance is through it return on assets (ROA), returns on equity (ROE) and Tobin Q as suggested in the literature. (2016; Lam & Lee, 2008, Yilmaz & Buyuklu).

In this study, ROA and Tobin Q is being used to measure the dependent variable that is firm performance. Khatab et al., (2011) posit that ROA would give the firm managers feedback on how efficient they are in managing the firm resources and the profitable the employed resources are working. Similarly, Yilmaz & Buyuklu (2016) explained that return on assets is simple to understand and calculated by dividing the profit after tax by total assets.

Bozec, Dia & Bozec (2010) define Tobin's Q as a traditional way measuring the projected long-run of the firm performance. The engagement of market value of equity could indicate the firm's future growth opportunities would root up from the managerial decisions factors that can have indicated by the firm performance (Shan & McIver,

2011). Tobin's Q is measured by dividing the amount of firm equity market value together with the book value of debt by the total book value of the total assets (Alm & Winberg, 2016; Conyon, & He, 2016; Jong, Gispert, Kabir, & Renneboog, 2003).

3.3.2 Independent Variables

3.3.2.1 Multiple Directorships in Audit committee and Firm Performance

Multiple directorships refer to having enrich directors with vast experience, knowledge, skills as well as business contacts that would add value the firm and resource to the management (Chen, 2008). By virtue, directors with multiple directorships and networks are anticipated to generate more benefits by bringing in the required resources in terms of expertise to the firm. These kind of directors with vast experience and knowledge about industry are capable of making valuable and better strategic decisions that would up lift the firm status when they are part and person in an audit committee (Booth & Deli, 1996, Ruigrok & Keller, 2006).

On the other perspective, Ferrer et al. (2012), and Haniffa and Hudaib (2006) highlight that multiple directorships have a number of fundamental implications in terms of the efficient functioning and structure of companies' boards and audit committees; in turn, these have a fundamental role to play in firm performance and CG. Usually, members holding more than one position have greater knowledge and experience relating to the company, and are therefore well-positioned to make sound strategic decisions (Di Pietra Grambovas, Raonic & Riccaboni, 2008; Latif et al., 2013).

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However, some studies have submitted that having too much multiple directorships would have negative effect on firm performance with Tobin's Q and positively correlated to ROA (Haniffa et. al 2006; Jackling & Johl, 2009). A study by Latif, Kamardin, Nisham, Mohd and Adam (2013) found that the multiple directorships does not effect on firms' performance of Malaysian stock market. Likewise, Sarkar and Sarkar (2009) found a negative relationship between busy executive directors and Tobin's Q.

Based on the above discussion with mixed result, this study attempts to observe the relationship size of audit committees and firm performance among firms in Oman.

Due to conflicts results, the following hypothesis would be tested:

H1*: There is an influence of multiple directorships on firm performance.*

3.3.2.2 Audit Committee size and Firm Performance

Accordingly, the suggestion of Cadbury Commission, that the number of the audit committee members shall be at least three in determining a firm performance. Kajol and Sunday (2008) argue that increasing the number of members in the committee suggested that more professionals are accessible immediately to perform and overseeing the internal financial activities and controls reporting. Braiotta, Gazzaway, Colson and Ramamoorti (2010) argued that the bigger committee the greater organizational status would be and the committee has a wider knowledge base.

However, El Mir and Seboui (2008) and Mohd, Iskandar and Mohd (2007) have suggest that the larger audit committee's member the more it leads to inefficient governance.

Because of their frequent meetings would leads to the increase in expenses, and therefore negatively affect the firm performance. Hence, large AC board is more likely to finding in low firm performance (Darko et al., 2016). Also, Anderson, Mansi and Reeb (2004) confirm that large AC size potentially capable of monitoring and defending the accounting and finance procedures by upholding a greater accountability and transparency in the company.

Some researchers have conducted study on correlation between the AC size and firm performance and their findings indicated a mixed result indicated a mixed result. For example, Al-Matari et al (2012) found a positive significant effects of AC size on the ROA. Similarly, Al-Mamun et al. (2014) submitted a significant association between AC size and the companies' performance. Additionally, Yasser, Entebang and Mansor (2011) recorded a positive association between AC size and firm performance in Pakistan. A similar study of Darko et al. (2016) in Ghana found positive relation with firm preformance.

On the contrary, Aanu, Odianonsen and Foyeke (2014), and Ghabayen (2012) showed there was insignificant relationship between companies' performance and AC size. However, a study by Al-Matari et al., (2014a) the employed a sample of 81 companies listed in Oman stock market found that there is no significant relationship between firm performance and audit committee size. Research conducted in Ghana by Darko et al. (2016) conclude an insignificant relationship exist between AC size with Tobin's Q.

Thus, based on above and resource dependence theory, the following hypothesis would be tested:

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__H2__: There is a positive relationship between audit committee size and firm performance.

3.3.2.3 Audit committee Independence and Firm Performance

The independent ACs manage and monitor better because they have no personal or economic relationship with company business (Hsu, 2007). Additionally, they are decision experts as well as good decision control (Abbott, Parke & Peters, 2004). Audit committee independence agrees external and internal auditors to examine and audit financial information accurately, and thus consolidation the internal control function. Therefore, AC independence can decrease financial misappropriation (Abbott et al., 2004).

Ilona (2008) indicates that the relationship between company performance as measured by ROA is positively related with the audit committee independence. Similarly Chan and Li, (2008) and Yasser et al. (2011) findings show that positive relationship exist between the AC independence and companies' performance. Moreover, Al-Mamun et al. (2014) used a sample of 75 public listed firms in Bursa Malaysia from the year 2008 to 2010 to evaluate the link between audit committee independence and performance of firms. The result shows that the association between AC independence and firm performance is positive. Furthermore, the study of Aanu et al. (2014), used a sample size of 25 firms listed on the Nigerian Stock Exchange from the year 2004 to 2011, shows that there is a positive significant relationship between AC independence and firm performance.

Nevertheless, some scholars conclude that the relationship between AC independence and performance of firms was not significant while others indicate negative relationship

between the variables (Dar et al., 2011). Moreover, Bansal and Sharma (2016) conclude a negative significant relationship between the firm performance using Tobin's Q and the audit committee independence.

On the other hand, Al-Matari et al. (2014b) indicated in conclusive result between the AC independence and firm performance. They use corporations from non-financial sector as a sample in Oman for the period of two years. In a similar case, Al-Matari et al. (2012), Jermias and Gani (2014) and Ghabayn (2012) conclude that there is no any association between AC independence and firm performance.

Although the findings are mixed, but based on the agency theory, the following hypothesis is proposed:

***H3**: Independence of audit committee members has a positive relationship with firm performance.*

3.3.2.4 Audit committee Meeting and Firm Performance

The AC meetings are highly considered to be a significant characteristic for effective monitoring and evaluating (Lin, Li, & Yang, 2006). But, Anderson, Mansi and Reeb (2004) submitted that audit committees evaluate and monitor the internal control process and provide dependable information to the shareholders. Thus, the committee is strengthening the management overseeing function, internal audit performance as well as the business risks (Hsu, 2007). The number of meetings held by the AC is considered as a proxy for the AC activity (Xie, Davidson & DaDalt, 2003).

There are so many scholars who have examined the affiliation between AC meeting and performance of firms from developed and developing nations (Khanchel, 2007). Various studies show there is a positive relationship between the frequent AC meetings and companies' performance (Chechet et al. 2013; Kang & Kim, 2011; Saibaba & Ansari; 2013). Bansal and Sharma (2016) also indicates positive and significant relationship between AC meetings and firm performance measured by Tobi'n Q. In addition, Amer et al. (2014) similarly shows that there is substantial proof to support the fact that audit committee frequent meetings positively impact on performance of firms.

In contrast, some researchers as Jermias and Gani (2014) used a sample of 500 firms of the U.S. listed firms and found a negative significant relationship between the audit committee meeting and firm performance. Similarly, Darko et al. (2016) in Ghana also record a negative significant relationship between AC meeting and firm performance. Hsu and Petchsakulwong (2010) conclude a negative relationship between AC meetings and firm performance.

Lastly, studies by Al-Matari et al. (2012), Noor (2011), and Rahmat, Iskandar and Saleh (2009) indicate an inconclusive result between the audit committee meetings and firm performance. Similarly, Aanu et al. (2014) and Bansal and sharma (2016) also record inconclusive result. But Bansal and sharma (2016) argued and conclude that the relationship between AC meetings with firm performance was insignificant measured by ROA.

Therefore, based on this mixed result and considering the resource dependence theory, this study hypothesizes the following

***H4**: There is a positive influence of audit committee meeting and firm performance.*

3.3.2.5 Audit committee Chairman Independence and Firm Performance

The chairman of AC plays a major role in leading the operation of audit committee (Abdullah & Ismail, 1999). If the chairman is not committed in discharging his or her chairmanship role, the other committee members are expected to follow suit. Thus, the audit commit, as a whole, will not be an effected (Abdullah & Ismail, 1999).

Normally, the chairman of the committee is selected from the independent directors agreed by the board of director. The structure of AC denotes to the percentage of non-executive members in the committee when related to the executive members (Kang & Kim, 2011). All or majority members of the committees must be non-executive directors, while the committee's chairman would be independent non-executive directors. Studies of Berg and Smith (1978), and Rechner and Dalton (1991) show that to some extent, an independent non- executive director do help in enhancing firm performance in the audit committee as suggested in the literature.

Generally, independent directors viewed as skillful experts in large firms or organizations and therefore, take care about their status (Nguyen & Nielsen, 2010). Islam, Islam, Bhattacharjee and Islam (2009) posited that it is expected that an independent audit committee would satisfy both the requirement of the external and internal financial statement users. Previous researches in the area stress the needs of the independence of AC members and not much was empirically offered between AC members' independence and performance of firms.

Leung, Richardson and Jaggi (2014) establish a positive association between AC chairman independence and firm performance using ROA. Kota and Tomar (2010) found no significant association between audit committee chairman independence and firm performance using TQ. This is supported by Amba (2014) who use a sample of 39 firms listed on Bahrain bourse found not an influence of firm performance.

Based on the above discussion and agency theory, following was hypothesize

***H5**: There is a positive influence of audit committee chairman independence on firm performance.*

3.3.2.6 Audit Committee Diligence and Firm Performance

Audit committee diligence refers to the percentage of members who attend the audit committee meetings during the year. Barros et al. (2013) contended that regular attendance of audit committee meetings indicates how the committee members are strongly committed in performing their supervisory duties. Haji-Abdullah and Wan-Hussin (2009) claimed that the level of attendance of audit committee diligence can also be used to measure the activeness of the audit committee members. Even when the frequency of meetings is high, if the attendance levels are poor, the effectiveness of the audit committee is impaired (Qeshta, 2015).

Qeshta (2015) suggests that greater support in the audit committee meetings allows members to provide valuable advice, share points of understanding, and benefit from each other's knowledge. This in turn would decrease the information asymmetry and promotes more effective functioning of the committee and increases attendance rate.

Thus, the effectiveness of the audit committee will decrease because of the most directors are busy.

Attendance of audit committee members at meetings is a decisive standard for evaluating the committee performance (Ormin, Tuta, & Shadrach, 2015). Agrawal & Chadha (2005) show that the higher the attendance levels of the audit committee members at a meeting, the more effective the committee will be. In addition, Rickling (2014) provided evidence suggesting that audit committee member's high engagement might affect their attendance and contribution at meetings and has a negative effect on the effectiveness of the committee in discharging its financial reporting and other oversight function.

Narayanaswamy, Raghunandan and Rama (2015) argued that the audit committee diligence would improve its readiness by more frequent meetings and would also increase audit committee director attendance at the meetings.

DeZoort et al. (2002) in their study shows that there is a positive association between firm performance and AC diligence. Also, Barros et al. (2013) their finding is consistent with DeZoort et al. (2002) by supporting a positive relationship between the two. Furthermore, Ormin et al. (2015) conclude also a positive significant influence between audit committee diligence and firm performance in terms of financial reporting quality.

Based on the above and resource dependence theory, the following hypotheses can be empirically tested.

H6*: There is positive influence of audit committee diligence on firm performance.*

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3.4 Operational Definition and Measurement of the Variables

This segment presents the measurement of dependent variables (ROA and (Tobin's Q), independent variables and control variables. The measurement of the variables is explained bellow:

3.4.1 Dependent Variable

Return on assets (ROA) and (Tobin's Q) is the measurement used to measure firm performance. Return on assets (ROA) is the earnings before tax divided by total assets of the company (Al-Matari et at., 2014; Ujunwa, 2012). Return on asset measures the operating and financial performance of companies (Klapper & Love, 2004). therefore higher ROA represents the actual use of assets for the shareholders advantage (Haniffa & Hudaib, 2006).

Tobin's Q is the market value of equity capital and the book value of firm's debt divided by the book value of total assets (Alm & Winberg, 2016; Bansal & Sharma, 2016, Conyon, & He, 2016; Fauzi & Locke, 2012; Khatab et al., 2011).

3.4.2 Independent Variables

This section provides measurements of the multiple directorships and audit committee as independent variables which are considered as follows:

3.4.2.1 Multiple Directorships in Audit Committee

Multiple directorships enhance the experience, knowledge, as well as business contacts of a director and could therefore be valuable sources of knowledge to managers. Multiple directorship of an audit committee is measured by the average number of outside directorships held by audit committee members (Aldamen et al., 2012; Kang et al., 2011; Yang & Krishnan, 2005).

AC multiple directorships is measured by average number of board seats held by audit committee members.

3.4.2.2 Audit Committee Size

The audit committee size is measured by the number of members of the audit committee. This number includes both non-executive independent directors and non-executive non-independent directors (Al-Matari et al., 2014). The number of audit committee directors has been extensively considered in audit committee studies as a measure of committee size, and has been used by many researchers, such as Al-Matari et al. (2014); Kang & Kim (2011) and Obiyo & Lenee (2011).

AC size is measured by the total number of members serving on the AC.

3.4.2.3 Audit Committee Independence

Audit committee independence is measured by the proportion of independent directors on the audit committee relative to the total number of audit committee members, as was also

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used by Al-Matari et al. (2014); Bansal et al. (2016); Chechet et al. (2013) and Kang & Kim (2011).

AC independence is measured by the proportion of independent directors on the audit committee to the total audit committee directors.

3.4.2.4 Audit Committee Meeting

The meetings of the audit committee are measured by the number of audit committee meetings held within the financial year of the annual report, as suggested by many researchers, such as Al-Matari et al. (2014); Bansal et al. (2016); Chechet et al. (2013) and Kang & Kim (2011).

AC meeting is measured by the number of audit committee meetings held within the financial year of the annual report.

3.4.2.5 Audit committee Chairman Independence

The code of corporate governance of Oman requires listed companies to have an independent chairman of the audit committee. Audit committee chairman independence is measured by a dummy variable: 1 if the Chairman of the AC is independent, 0 otherwise; (Aldamen et al., 2012).

AC chairman independence is measured by dummy variable (1 if the Chairman of the AC is independent, 0 otherwise)

3.4.2.6 Audit Committee Diligence

Audit committee diligence is measured by the proportion of the participation of the audit committee members in the meeting, as suggested by Barros et al. (2013); Maraghni and Nekhili (2014) and Qeshta (2015).

AC diligence is measured by the proportion of the participation of the audit committee members in the meeting.

3.4.3 Control Variable

This study employs firm size, leverage and firm big 4 auditors as control variables.

3.4.3.1 Firm Size

Firm size is a variable that can normally effect on the firm performance and is used usually in the empirical literature of corporate governance. However, firm size on his own have an ambiguous effect on the firm performance (Aljifri and Moustafa, 2007). For example, some studies explain that larger firms could be less efficient than the smaller ones because the latter would meet more government bureaucracy, redundancy and at large bigger agency problems (Sun, Tong & Tong 2002). Meanwhile bigger companies can use their brand name to hire or employ expertise and experienced managers, exploit economies of scale and have more market power (Jayesh & Kumar, 2003).

Scholars have attributed different parameters for measuring company size. Smith, Smith and Vener (2005) measure company size by the number of employees. A more prominent measurement is used in numerous studies, for example Joh (2003) and Sanda, Mikailu,

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and Garba (2010) said that it is the book value of total assets. It is expected that firm size would be positively related to firm performance, because bigger companies normally have more market power. Some studies uses the natural logarithm of sales (Klapper & Love, 2004; Weir, Laing & Mcknight, 2002). Azeez (2015) and Ferrer and Reynald (2012) found a significant positive relationship between firm size and firm performance. But, Muhammad, Rehman and Waqas (2016) found no association between firm size and firm performance.

Firm size is the natural logarithm of total assets.

3.4.3.2 Leverage

The sum of long-term and short-term financial debt is referred to as debt ratio (Aljifri & Moustafa, 2007). It is argued that debt proportion has a different impact on firm performance.

In contrast, a positive impact possibly rooted from decrease the free cash flows by exposing the firms to be monitored by the market forces. According to Sanda, Mikailu, and Garba (2005) explain that firms large creditors for instant, also have much concern and are interested seeing the firm management assurance in improving the performance measures. While deliberating concerning the agency theory, Jensen et al. (1976) claimed that companies with high leveraged would likely to spent higher monitoring expenses; even though high levels debts in a firm could also increase agency cost. Similarly, managers may strengthen their monitoring activities through putting extra effort and with support of effective AC committees.

Furthermore, Fauzi and Locke (2012), Lama (2013), Olokoyo (2013) and Zeitun and Gang Tian (2007) conclude that high leverage would result in lowering the firm ROA, but on the other hand can improve Tobin's Q. This revealed that increase in debt might be the negative effect on firm accounting performance, but positively influences market measurement of firm performance.

Ferrer and Reynald (2012) and Muhammad et al. (2016); Yilmaz & Buyuklu (2016) shows a leverage have a negatively significant relationship with firm performance. Arora & Sharma (2016) found leverage to be negatively related with ROA. This implied that firms with low leverage are more likely to perform better. But to Azeez (2015), there is no relationship between leverage and firm performance.

This contradicts with the findings of other authors may seeing that firms with high leverage would not perform effectively in the stock market (Jensen, 1986; Olokoyo, 2013). Prior empirical studies who scrutinized the relationship between firm performance and corporate governance findings have shown that leverage has significant influence on firm performance (Al-Matari et al., 2012; Sanda et al., 2005).

Firm leverage is measured by dividing the total liabilities by total assets.

3.4.3.3 Firm Big 4 Auditors

It could be contended that large audit firms would provide a high quality auditing because of their vast expertise, knowledge and greater evaluating capacity (Al-Ajmi, 2008). In addition, they have more qualified staffs that are better knowledgeable in auditing listed firms (Ahmed, 2003; Afify, 2009). However, it is highly probable that the big audit firms

can achieve the auditing process faster and accurately because of their advantage of expending presumable and efficient, reputation, in auditing practice and techniques (Newton and Ashton, 1989). Furthermore, the leading large global large auditing firms (i.e. the Big 4 auditors) partake a capacity to complete the audit process quicker and accurately to maintain their professional reputation (Afify, 2009).

Agency theory as well as an information asymmetry conjuncture stated that, performance of firms and auditor type align together (Fama and Jensen, 1983; Jensen and Meckling, 1976; Wallace, 1980). It is also recommended that that when there is higher audit expectation quality, the unrevealed management performance, agency cost and information asymmetry would not be the problem of the organization. This will make shareholders and internal investors to be persuaded and believed in the company value at the market forces (Grayson, 1999). In consistent with this idea, Alzharani, Ahmad and Aljaaidi (2011) record that there is a positive relationship between the auditor type and companies' performance. Aljifiri and Moustafa (2007) result shows an insignificant association between the auditor type and performance of firms. Even though, the projected proof for the influence of external auditor type on performance of firms from the perspective of Oman listed companies is positive. Because empirical existing studies from developed countries show there is an effect of firm market values that used the Big 4 in auditing a firms (Selarka, 2014). The firm that employed one of the Big 4 auditing firm often experience low equity risk, levels of the earnings management as well as premium ex ante.

The Big 4 auditors are Deloitte, Ernst & Young, KPMG, and PwC.

Table 3.1
Summary of operationalization and definition of the variables

Variables	Acronym	Operationalisation
Dependent variable:		
Return on assets	ROA	The earnings before tax divided by total assets of the company.
Tobin's Q	Tobin's Q	Measured as the market value of equity capital and the book value of firm's debt divided by the book value of total assets
Independent variables:		
Audit committee multiple directorships	ACMDIR	-Average number of board seats held by audit committee member.
Audit committee size	ACSIZE	- The total number of members serving on the audit committee.
Audit committee independence	ACIND	The proportion of independent directors on the audit committee to the total audit committee directors.
Audit committee meeting	ACMEET	The number of audit committee meetings held within the financial year of the annual report.
Audit committee chairman independence	ACCHIR	Dichotomous with 1 for audit committee has independent chairman and 0 otherwise.
Audit committee diligence	ACDILIG	The proportion of the participation of the audit committee members in the meeting.
Control variables:		
Firm size	FSIZE	Natural log of total assets.
Leverage	LEV	The ratio of total liabilities to total assets.
Big 4 auditors	BIG4	1 if auditor is Deloitte, Ernst & Young, KPMG, and PwC, or 0 otherwise

3.5 Model Specification and Multiple Regressions

The multivariate regression analysis is utilized to investigate the influence of audit committee characteristics on firm performance. However, in order to find the accurate dependent variables prediction, the multivariate regression findings representing the most analysis. This method is utilized in cases where the independent variables are interrelated with one another and with the dependent variable.

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The regression equation is depicted as follows:

Model 1:

ROA = α0 + β1 ACMDIR + β2 ACSIZE + β3ACIND + β4 ACMEET + β5 ACCHIR +β6 ACDILIG +β7 FSIZE + β8 LEV + β9 BIG4+ *ε*

Model 2:

TQ = α0 + β1 ACMDIR + β2 ACSIZE + β3 ACIND + β4 ACMEET + β5 ACCHIR +β6 ACDILIG +β7 FSIZE + β8 LEV + β9 BIG4+ *ε*

Where:

ROA: Return on assets

TQ: Tobin's Q

ACMDIR: Audit committee multiple directorship

ACSIZE: Audit committee size

ACIND: Audit committee independence

ACMEET: Audit committee meeting

ACCHIR: Audit committee chairman independence

ACDILIG: Audit committee diligence

FSIZE: Firm size

LEV: Firm leverage

BIG4: Firm big 4 auditors

ε: Error term

3.6 Research Design

The main aim of this research is to examine the influence of audit committee characteristics (AC size, AC independence, AC meeting, and AC chairman independence, AC diligence) as independent variables and firm performance (return on asset and Tobin's Q) as dependent variable. The study design is quantitative research using annual report of non-financial firms listed on Oman Securities Market. The period cover for the sample of the study was 2014 and 2015 from all sector excluding financial listed companies. This is because they have peculiar listing requirement different from other non-financial listed companies.

3.7 Data Collection

Data on audit committee characteristics and firm performance were collected from the annual reports of the selected firms that were listed on the Muscat Securities Market (MSM). Data concerning the firm performance was taken from financial statements.

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3.8 Sample Method

This study targeted listed companies in Oman from the year 2014 and 2015 from all sectors excluding financial and the banking sector. This because they have their peculiar listing requirement differently from other sectors. The total number of non-financial firms listed on Muscat Securities Market (MSM) stock exchange is 82 firms at the study period from 2014 and 2015. Considering the scope of the study and the sample selected, the study observes a sample of 82 company for their availability of information. The study also extracts data from firm annual reports for the year 2014 and 2015.

3.8.1 Population and Sample Size

The actual firms listed in the Oman stock exchange in a year were 116. It is indicated that 34 firms out of the listed companies were financial services. The sampling size for this study consists only non-financial sectors which comprises of 82 companies (46 industrial sectors and 36 service sectors). However, one of the companies (Phonex Power) had an incomplete annual report for year 2014. Table 3.2 provides the summary of sample size and selected companies used in this study.

Table 3.2
Summary of Sample Size

Item	Frequency
Companies listed on Oman stock exchange	116
Less: Financial Sector companies	34
Non-financial sectors with complete required data.	82
Years (2014 & 2015)	*2
Total	164
Less: Incomplete annual report company (phonex power) 2014	(1)
Total number of selected companies (2014 & 2015)	163

Out of the 82 companies, 46 belong to the industrial sector, while 36 belong to the service sector. The distribution of companies according to the sub-sectors is shown in Table 3.3.

Table 3.3
Distribution of companies by sub-sectors

Industrial Sectors	No	Service Sectors	No
Food	17	Telecommunication	2
Cement	2	Tourism	10
Engineering	2	Logistics	2
Textiles	2	Oil & Gas	5
Mining	4	Education	3
Constructions Materials Support	7	Energy	11
Paper & Glass	5	Diversified Commercial Services	3
Chemicals	3		
Pharmaceutical	1		
Electrical	3		
	46		**36**

3.8.2 Unit of Analysis

The unit of analysis in this research was the Oman Public Listed Companies.

3.9 Techniques of Data Analysis

This study used multiple regression. The collected data was analyzed using statistical tool software of Stata version 12. The operation that were carry out comprises of descriptive statistics, correlation analysis, heteroscedasticity and regression analysis.

3.10 Summary of the Chapter

This chapter includes the explanation of the methodology used in the research. additionally, it explains the research design, the theoretical framework, the research methodology and data analysis.

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CHAPTER FOUR

RESULTS AND DISCUSSIONS

4.1 Introduction

The present chapter shows the results of the relationship of audit committee characteristics and firm performance using the data from the sample. This chapter has four sections descriptive statistics, multicollinearity, test of heteroscedasticity and regression analysis.

4.2 Descriptive Statistics

Table 4.1 shows the descriptive statistics of the continuous variables. The descriptive statistics include minimum, maximum, mean and standard deviation, STATA 12 used to compute. Table 4.1, reported that the mean performance of companies with ROA almost 0.05. The minimum reported performance is about -0.592 and a maximum of 0.364 with a standard deviation of 0.107. This average is close to the result of the study of Al-Mattari et al. (2014a); Al-Mattari et al. (2014b) in Oman. Therefore, the mean value of 5% for ROA indicates poor performance of management in obtaining profit from firm assets.

Moreover, the maximum value of TOBINS_Q is around 4.004 and minimum of 0.122, and the standard deviation is 0.629. The mean value of TOBINS_Q is around 1.11, this value is about one. This value suggests that the market value is about the same at the book value. In other words, the market is selling the firm's shares at about the right price. Therefore, the company stock is neither over-valued nor under-valued.

Table 4.1
Descriptive Statistics of Continuous Variables

Variable	N	Minimum	Maximum	Mean	Std. Deviation
ROA	163	-0.592	0.364	0.050	0.107
TQ	163	0.122	4.004	1.109	0.629
ACMDIR	163	0.000	3.333	0.777	0.641
ACSIZE	163	2.000	5.000	3.399	0.643
ACINDE	163	0.000	1.000	0.863	0.213
ACMEET	163	1.000	9.000	4.791	1.204
ACDILIG	163	0.560	1.000	0.905	0.097
FSIZE	163	4.828	13.619	10.176	1.648
LEV	163	0.015	2.247	0.492	0.334

Based on Table 4.1, the mean of the audit committee multiple directorships is about 0.78 with a maximum and minimum of 3.3 and 0.00 multiple directorships respectively. In terms of AC size (ACSIZE) the mean of an audit committee size members is about 3.4 with a maximum of 5 members and a minimum of 2 members. This is comparable to the studies conducted by Al-Matari *et* al. (2012) in Kuwait and Ghabayen (2012) in Saudi Arabia, which is three members. Concerning the Corporate Governance Code (2002) in Oman, the audit committee should involve of at least three members and this is supported by Fama and Jensen (1983) who claimed that three members are essentially good for the performance of the firm.

So, it is understood that the audit committee in the listed companies in Oman stock exchange have more than three members a medium. The median of audit committee independence (ACINDE) is almost 0.86, the minimum percentage of independence of audit committee is 0 while the maximum is 100%. This means that some companies have

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fully independent audit committees. This is in line with the Omani Code which requires that an AC should have at least three members.

With regards to audit committee meeting (ACMEET), the results in Table 4.1 show that the mean of the AC meeting is about 5 times a year with a minimum and a maximum of 1 and 9, respectively. This is also in line with the Omani Code of Corporate Governance (2002) that orders the committees to hold the meetings, at least four times yearly with a majority of independent directors.

With respect of audit committee diligence, the average, as shown in Table 4.1 is 90.5. This average is in line with a study done by Barros et al. (2013) who suggests that, more than half of the audit committee members' participate in audit committee meetings.

As for control variables for the two models as shown in Table 4.1 indicates that the median of firm size (FSIZE) is about 10.18, with a maximum is 13.62 and a minimum is 4.83 with deviation of 1.65. Moreover, the mean of leverage (LEV) of the sample firms is 0.50 percent, with a maximum of 2.25 percent and a minimum of 0.02 percent. The average is in line with finding by Al-Matari et al. (2014a) and Al-Matari et al., (2014b).

The descriptive statistics in Table 4.2 indicated that 150 (92.02 percent) chairmen of audit committee are independence, while 13 (7.98 percent) are not independent. The Code of Corporate Governance (2002) in Oman recommends that the chairman of AC would be an independent director. On the one hand, Table 4.2, shows that 106 companies (65.03) are audited by BIG4, while 57 companies (34.97) is not audited by BIG4.

Table 4.2
Descriptive Statistics (percentage) for dummy variables

Variable	1	0	Total
ACCHIR	150 (92.02%)	13 (7.98%)	163 100%
BIG4	106 (65.03%)	57 (34.97%)	163 100%

4.3 Multicollinearity

Multicollinearity is the degree to which a variable can be described by other variables. It is imperative that the correlation values of the research are less than the value recommended by Tabachnick and Fidell (2013), and Hair, Tatham, Anderson, and Black (2006) which is 0.80. If the correlation value is more, then it is said to have multicollinearity. The existence of multicollinearity between the exogenous latent hypotheses could significantly affect the statistical significance tests as well as the estimates regression coefficients (Tabachnick & Fidell, 2013; Hair et al., 2006; Chatterjee & Yilmaz, 1992) multicollinearity increase the coefficients standard errors, which subsequently render the statistical coefficients insignificant (Tabachnick & Fidell, 2013).

To identify multicollinearity, the researcher apply a two methods (Peng & Lai, 2012; Chatterjee & Yilmaz, 1992). The correlation matrix of the independents/exogenous latent constructs were investigated. Hair et al. (2006) suggested that the coefficient of the correlation is 0.90 and above which simply reveal the multicollinearity between the independents variable. Table 4.3 indicates the independent variables correlation matrix.

Table 4.3

Correlation Matrix of Independent Variables

	ROA	TQ	ACMDIR	ACSIZE	ACINDE	ACMEET	ACCHIR	ACDILIG	FSIZE	LEV	BIG4
ROA	1										
TQ	-0.0642	1									
ACMDIR	0.0361	-0.2801***	1								
ACSIZE	0.1141	-0.1047	0.177***	1							
ACINDE	0.0462	-0.0127	0.1717***	0.0859	1						
ACMEET	0.0385	-0.0731	0.2288***	0.1877***	0.2284***	1					
ACCHIR	0.0159	0.0766	0.0847	0.0771	0.6337***	0.1941**	1				
ACDILIG	-0.097	0.1564***	0.0164	-0.1601***	0.0232	0.0517	0.089	1			
FSIZE	0.2843***	-0.1613***	0.1039	0.095	0.0137	0.1659***	-0.0199	-0.0183	1		
LEV	-0.4941***	0.1723***	-0.0534	-0.2005***	-0.0335	-0.0615	0.0009	0.0868	0.0694	1	
BIG4	0.1503**	-0.0084	0.1327**	0.0547	0.1315	0.1083	0.01165	-0.0744	0.4788	-0.0425	1

*** Regression Coefficient is significant at the 0.01 level **Correlation is significant at the 0.05 level *Correlation is significant at the 0.10 level.

As exhibited in Table 4.4, the correlations between the independent variables were sufficiently enough as it goes below the recommended bench mark values of .90, which indicates that the exogenous independent construct are not significantly extremely correlated.

Furthermore, upon conducting the exogenous constructs in the correlation matrix of the variance inflated factor (VIF), were investigated to identify whether multicollinearity problems exist. Hair, Ringle, and Sarstedt (2011) indicated that the multicollinearity is of great concern if VIF value is more than 5. Table 4.4 shows the VIF values, for the exogenous latent constructs.

Table 4.4
Multicollinearity Test

	Model 1 and 2	
Variable	**VIF**	**1/VIF**
ACMDIR	1.11	0.9023
ACSIZE	1.14	0.8768
ACIND	1.74	0.6224
ACMEET	1.15	0.8701
ACCHIR	1.71	0.5842
ACDELIG	1.06	0.9468
FSIZE	1.36	0.7369
LEV	1.06	0.9394
BIG4	1.35	0.7388

Following the recommendation by Hair et al. (2011) Table 4.5 shows that, multicollinearity did not exist within the exogenous latent constructs because all the VIF values were less than 5; hence, this study has no multicollinearity issues.

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4.4 Test of Heteroscedasticity

One of the most common violations in the gradient with the cross-section analysis of the data is the presence of an unequal variance of the residual, which is known as the heterogeneity (Hair et al., 2006). Since the heterogeneity of a problem that could cause the value of the bias of the difference properly, the estimators STATA will be ineffective and no longer the best linear unbiased estimator. It may lead to a rise in the value of R and F, which may be rejected when it is not the null hypothesis should be rejected if the problem has been addressed.

Table 4.5
Breusch-Pagan / Cook-Weisberg test for heteroskedasticity

Source	**chi2**	**P-value**
ROA	21.38	0.000
Tobin's Q	14.47	0.000

The results are shown in Table 4.5. Breusch-Pagan/Cook-Weisberg test that has been used in this study to detect heterogeneity in the models. The result shows that the p-values are less than 0.05 for all companies. Therefore, the model rejects the null hypothesis and suggest that there is a problem of the heterogeneity in the study. Thus, robust standard error suggested by (Rogers 1993) was implemented to correct these problems.

4.5 Regression Results

The aim of the linear regression analysis is to exam direction and power of the relationship between independent variables and dependent variable. This method has the

capability to the relative strength of the relationship between dependent variable and the independence variable (Sekaran & Bougie, 2010).

As exhibited in Table 4.3, the multiple regression explains 35.35% of the total variance in ROA, 16.82% of the total variance in TQ. This suggests that the six sets of independents variables (i.e., AC MDIR, AC size, AC IND, AC meeting, AC CHAIR and AC DILIG) collectively explain 35.35% of the variance of the ROA, whereas, the remaining 64.65% of variation is attributed to other variables. However, the R-square value of Tobin's Q is about 16.82% indicating that only 16.82% of Tobin's Q variations are determined by the audit committee characteristics used in the regression. While the remaining 83.18% of variation is attributed to other variables. Therefore, the dependent variable showed acceptable levels of R-squared value, which was considered as moderate and low as suggested by previous studies (Chin, 1998; Falk & Miller, 1992).

This study shows that AC multiple directorship is insignificant related to ROA ($t = -0.21$, $P > 0.10$). However, the finding shows that there is a negative significant relationship, with Tobin's Q ($t = -4.19$, $P < 0.01$). Therefore, the results support Hypothesis 1. This result can be justified in that those who serve an audit committee have additional responsibilities and may not be able to control management, which can be reflected in the decline of firms' performance adequately. Sarkar and Sarkar (2009) found negative influence at audit committee multiple directorships on firm performance. Haniffa et al. (2006) suggested that the having unnecessary multiple directorships would have a negative implication on performance of firms. On other hand, a study by Latif et al. (2013) found that there is no association between multiple directorships and firm performance.

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Directors who serve on multiple boards become highly engage and cannot monitor the managers adequately, which then end up to high agency costs (Latif et al., 2013). Consequently, directors who serve on multiple boards would be over committed and as a consequence they tend to dodge their responsibilities.

Table 4.6
Regression analysis

Variable	**ROA**			**TQ**		
	Coefficient	**t- Statistic**	**P- Val**	**Coefficient**	**t- Statistic**	**P- Val**
ACMDIR	-0.00246	-0.21	0.834	-0.26759	-4.19	0.000***
ACSIZE	-0.00371	-0.32	0.752	0.00846	0.12	0.902
ACINDE	0.020337	0.59	0.553	-0.1279	-0.44	0.660
ACMEET	-0.00412	-0.62	0.535	-0.00028	-0.01	0.993
ACCHAIR	0.001651	0.07	0.945	0.236338	1.23	0.221
ACDILIG	-0.05558	-0.77	0.441	0.948442	2.14	0.034**
FSIZE	0.022668	3.32	0.001***	-0.08056	-1.96	0.051*
LEV	-0.16703	-4.78	0.000***	0.312179	1.72	0.088*
BIG4	-0.00915	-0.62	0.536	0.184566	1.54	0.126
_cons	-0.02661	-0.25	0.802	0.870357	1.17	0.242
Sample	163			163		
R-squared	0.3535			0.1682		
Sig	0.000			0.000		
F- statistics	4.39			3.64		

*** Regression Coefficient is significant at the 0.01 level **Correlation is significant at the 0.05 level *Correlation is significant at the 0.10 level.

With regard to AC size, the result shows an insignificant influence with return on assets and Tobin's (t=-0.32, P>0.10), (t=0.12, P>0.10) respectively. This finding does not support H2. This indicates that the large audit committees do not necessarily enhance the firm performance. This finding contradicts the assumption because it does not make

effective decisions leading to the frequency of meetings of the audit committees (Vafeas, 1999). These results are similar to Al-Matari et al. (2014a) in Oman who found an insignaficant influnse of AC size on ROA. In the same line Al-Matari et al. (2012) and Ghabayen (2012) in Saudi Arabia found that there is an insignificant relationship between AC size and performance of firms. In addition, results of Aanu et al. (2014) found that there is no impact of AC size on firm performance. A possible reason for the insignificant finding of AC size on firm performance is offered by Al-Matari et al. (2014a) in Oman, who argued that an audit committee is not as vital as it is in advanced nations.

The relationship between AC independence is found to be insignificant in this study. Thus, H3 is not supported. The negative trend indicates that audit committees with larger independence do not actually reinforce firm performance. The audit committee members were not actually independent adequate to play a serious monitoring role and contribute significantly to firm performance. AC Independence fulfills the requirement of the Omani Code of CG (2002), but might not be able to exercise their powers. A lack of knowledge about the company, its business, and its work environment by audit committee members—because of lack of time to do their duties properly—would support the view that audit committee members do not bring the skills required for the job and prefer to play less oversight role that will decrease the firm value (Agrawal & Knoeker, 1996; Hermalin & Weisbach, 1991).

This finding is coincides with prior researches that found the relationship between AC independence and firm performance is insignificant. For instance, Al-Matari et al. (2014a) in Oman, in Saudi Arabia Al-Matari et al. (2012) and Ghabayn (2012) found an

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insignificant influence of AC independence on firm performance. In addition, Bansal and Sharma (2016) found no impact between AC independence and performance of firms. Expected reason for this insignificant finding of the independence of AC is that the only presence of AC independence on the board may be lacking for audit committees to achieve its surveillance tasks to increase firm value (Al-Matari et al., 2014a).

Similarly, this study also shows that the influence of AC meeting on firm performance (ROA and Tobins' Q) is insignificant. These results indicate that audit committee meetings do not show diligence and inclination towards investment efforts and time that will increase firm value. Thus, H4 is not supported. In this regard, this finding is in accordance with the prior studies of Al-Matari et al. (2014b) in Oman and Al-Matari et al. (2012) in Saudi. Additionally, Aanu et al. (2014) in Nigeria and Bansal et al. (2016) in Pakistan who found no association between AC meeting and firm performance.

Nevertheless, frequent meetings each year that the committee undertakes play a vital role. In their operating oversight function. Generally, it is thought that the role of the audit committee is to oversight the management function rather than the company's management (Al-Matari et al., 2014b). Lipton and Lorsch (1992) who are supposed to be highly frequent in the meetings, the more possible it will lead to larger performance of the company. Additional expected description for this non-significant result is that the frequency of meetings of AC may increase in times of the contentious decisions or in times of financial crisis that may include questionable activities or illegal.

According to agency theory, increasing the frequency of meeting during the year will reflect negatively on the company's performance. Therefore, it will be a routine for the members without any effective decisions.

With respect to AC chairman, the results show insignificant influence between audit committee chairman independence and firm performance. This appears clearly with ROA ($t = 0.07$, $P > 0.10$). Also, AC chairman is insignificant related to Tobin's Q ($t = 1.23$, $P > 0.10$). Thus, H5 is not supported. This finding is comparable with prior results; for instance, Amba (2014) and Kota and Tomar (2010) found the influence between AC chairman independence and firm performance to be not significant. This result shows that the chairman of the audit committee in Oman companies does not lead to increased performance of the company. It may be due to low experience of chairman of audit committees. This finding is inconsistent with Leung, Richardson and Jaggi (2014) who found a positive relationship between AC chairman independence and performance of firms.

In terms of AC diligence, the findings of this study show that there is no influence between AC diligence and firm performance (ROA) ($t = -0.77$, $P > 0.10$) and positive and significant with Tobin's Q ($t = 2.14$, $P < 0.05$). This finding indicates that the attendance of members of the audit committee meetings does not show that tendency to invest the time and effort could increase the company's value. So, H6 is not supported. However, these findings are not surprising because the effectiveness of the audit committee depends, to a large extent, upon their diligence or activities, such as the attendance, duration, frequency and content of audit committee meetings.

In fact, audit committee effectiveness depends mainly on how successfully its members can carry out their roles and responsibilities regardless of composition. This study concludes that the high rate of participation in the meetings of the audit committees of the Oman firms does not lead to increased performance. This result is inconsistent with the previous research results from Ormin et al. (2015) who found a significant influence of AC effectiveness diligence on financial reporting quality, and Barros et al. (2013) who found positive relationship between voluntary audit committee diligence and disclosure.

Table 4.6 shows a positively significant relationship between firm size and ROA (t=3.32, P>0.01). However, firm size is negatively significant related to Tobin’s Q (t= -1.96, P>0.05). The results show mixed findings. On one side, big companies have a greater opportunity for training and staff development, and risk diversification (Helmich, 1977; Kumar, 2004), and have more analysts available who are centered on the performance of the firm and, as such, are under greater pressure to perform well (Pfeffer & Salancik, 1978), Thus the ROA is increased.

However, with Tobin's Q, large companies lead to a decline in the performance of companies. When a firm need to expand, the Governing Council may refrain from raising external funds because they are worried about the loss of control and positions, resulting in a decrease in the company's market.

Furthermore, leverage was found a negatively and significantly related to ROA (t= -4.78, P<0.01) and positively insignificant with Tobin’s Q (t= 1.72, P<0.10). This is because the administration is facing pressure in terms of enhancing the performance of companies because it decreases ethical hazard by decreasing the free cash flow at the disposal of

administration (Alzharani et al., (2011). In this case, the administration is more aware of the consumption of fewer privileges, and eventually become more effective in circumventing bankruptcy, and thus the loss of reputation and control. Therefore, the company's performance rises with leverage.

Table 4.6 shows no significant influence between big 4 auditors and firms' performance with ROA (t=-0.62, P>0.10), and Tobin's Q (t=1.54, P>0.10). This finding consistent with Aljifiri and Moustafa (2007) and Alzharani, et al. (2011) who found there is no association between auditor type and firm performance. A likely description behind this finding is that the external auditors do not have an impact on their clients' executive decisions (Aljifiri and Moustafa, 2007).

Table 4.7
Summary of the hypotheses results

Hypothesis	Influence between	Findings
H1	AC multiple directorship and ROA	No relationship
	AC multiple directorship and TQ	Negative and significant
H2	AC size and ROA	No relationship
	AC size and TQ	
H3	AC independence and ROA	No relationship
	AC independence and TQ	
H4	AC meeting and ROA	No relationship
	AC meeting and TQ	
H5	AC chairman independence and ROA	No relationship
	AC chairman independence and TQ	
H6	AC diligence and ROA	No relationship
	AC diligence and TQ	Positive and significant

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4.6 Summary of the Chapter

This chapter has discussed the findings of the analysis that were conducted using different tools. For aim of ensuring that the data fit the assumptions of multiple regressions, the descriptive analysis of the variables and the Pearson correlation analysis was presented in this chapter. This was followed by the testing of assumptions which are multicollinearity, heteroscedasticity and the regression analysis. Moreover, all these tests were conducted to exam the robustness and the stability of the results for ROA and Tobin-Q. The findings are summarized in Table 4.7.

Finally, the next chapter discusses the conclusions, contribution of this study, limitations of the study and suggestions for future studies.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter is structured to provide the conclusion, recommendation and limitation of the study and further suggest for future studies. The chapter is very essential to provide the major findings of the study and highlight some recommendation were necessary.

The study investigates the impact a set of audit committee characteristics (namely, AC multiple directorship, AC size, AC independence, AC meeting, AC chairman independence, AC diligence) on firm performance (ROA and TQ) of listed firms in Oman during 2014 to 2015. The sample of this study comprised of 163 non-financial in the Muscat Stock Market (MSM) in 2014 to 2015. This study excludes the financial sector (banks, insurances and other financial sectors) from the sample.

The major findings of the study show that audit committee has no influence over firm performance as depicted in the chapter four of this research. Even though the study found that the multiple directorships in audit committee and their diligence has influence on the firm performance as measured by TQ. In addition, it is also found that the result of control variables indicate that firm size and leverage are having significant influencing firm performance (ROA and TQ). By so doing the study has achieved its fundamental objectives by examining the relationship between audit committee characteristics and firm performance.

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Audit committee size is insignificantly related to both measurements of firm performance (ROA and Tobin-Q). This result is in line with previous studies of AL-Mattari et al. (2014a) and Ghabayen (2012) where in their different studies found that audit committee size and firm's performance are insignificantly related. Moreover, based on the results, it indicates that financial performance of non-financial listed firms in Oman are not to be enhanced by audit committee size.

With regards of AC independence, the result found to be insignificantly related to both ROA and Tobin-Q. This is consistent with Al-Matari et al. (2014a); Al-Matari et al. (2012) and Bansal and Sharma (2016) who found that there is no relationship between independence of AC and firm performance. However, it is in contrast to a study by Aanu et al. (2014) and Al-Mamun et al. (2014) who found a significant positive relationship between AC independence and firm performance (Tobin's Q).

Equally, AC meeting found to be insignificantly with firm performance (ROA and Tobin's Q), This result is in contrast with the result by Bansal et al. (2016) who found a significantly related to firm performance. Along the same line, the AC chairman independence was found to be insignificantly related to ROA and Tobin-Q.

Finally, big 4 auditors do not influence firm performance (ROA and TQ).

5.2 Contribution of the Study

This study supports previous studies that examine the impact of audit committee characteristic on firm performance. In addition, the study boosts the understanding about audit committee characteristic in Gulf countries, in which there is very few studies that

investigate the relationship between audit committee characteristic and firm performance in the Gulf region in general, particularly in Oman. For example, the study of Al-Matari et al. (2014) in Oman; Al-Matari et al. (2012), Al-Hussain and Johnson (2009) and Ghabayen (2012) in Saudia Arabia; Al-Matari et al. (2012) in Kuwait, Najjar (2012) in Bahrain and Aljifri and Moustafa (2007) UAE they all posit that very scanty studies were document in Gulf nations about the influence of audit committee characteristic and firm performance and therefore need for more studies. Therefore, this study provides new evidence on the effect of audit committee characteristic and firm performance.

5.3 Limitations of the Study and Suggestions for Future Research

The findings of this study provide numerous insights that may be of interest to government, scholars, policy-markets, institutions, researchers, and other relevant stakeholders.

First, this study is limited to only non-financial firms listed on the Muscat Stock Market (MSM) in Oman. It is suggested that future studies include concentrates in comparing the audit committee characteristic and firm performance of Oman with counterparts of GCC nation such as Saudi, UAE, Qatar, Bahrain and Kuwait.

Second, this study considered only two years, that are 2014 and 2015. During this short period of time, the study may not reflect all operations of the sample companies. Future research should consider the extension of this period and to cover all sectors including financial one.

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Third, this study used only two measurements (return on assets and Tobin's Q) to measure firm's performances and thus other measurements are disregarded. This study does not take into consideration other methods of performance measurements such as return on investments and return on equity.

Fourth, this study examined the impact of some variables related to audit committee characteristics, namely: audit committee multiple directorships, AC size, audit committee independence, AC meeting, AC chairman independence and AC diligence on firm performance. However, future studies may consider taking into account some other variables such as foreign audit committee members, and other variables that may have a significant role in improving firm performance.

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