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Article

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Moderation effects of multiple directorships on audit committee and firm performance: A middle eastern perspective

Kamilah Kamaludin¹, Sheela Sundarasan^{2*} and Izani Ibrahim³

Abstract: This study examines the moderation effects of audit committee members' multiple directorships on the association between the number of audit committee meetings, attendance in the audit committee meetings and firm performance. A panel generalized least square method is used as the analysis tool, on the selected listed firms in the Saudi Arabian Stock Market (Tadawul). Empirical evidence suggests an inverse relationship between the number of audit committee meetings, audit committee meetings' attendance and firm performance. As for the moderation effects of multiple directorships, a positive effect is documented. The results indicate that the multiple directorships by the audit committee members play a significantly positive role on firm performance in the Kingdom of Saudi Arabia (KSA). This study underwrites a middle eastern perspective on the relationship between the number of audit committee meetings and its attendance and the moderation effects of audit committee members' multiple directorships on firm performance. The findings of this study provide valuable insights to policymakers and practitioners. The results should provide support to regulatory authorities to legislate effective regulations to make internal governance mechanisms work more effectively in the country.

Subjects: Accounting; Corporate Governance

Keywords: audit committee; number of audit committee meetings; attendance in the audit committee meetings; multiple directorships; firm performance; Saudi Arabia

1. Introduction

The principal aim of a firm's audit committee is to safeguard the financial reporting accuracy, audit practices, internal controls and the amenability with rules and principles (Arens et al., 2010). Regular audit committee meetings would ensure proper execution of the audit committee members' responsibilities in terms of internal control, effective and smooth running of the internal and external auditing process, minimization of information risk, fraud by management and mitigation of any agency problems. In addition to advisory roles, boards of directors form specific executive committees such as audit committees to also assist in the monitoring of any probable agency conflicts. Board members are appointed to the audit committees to supervise and administer the financial undertakings of companies and to act as a link amongst the board of directors and

auditors (internal and external). Audit committees also play an important role in minimization of information risk, fraud by management and mitigation of any agency problems. An effective audit committee should also engage in safeguarding respectable corporate governance practices.

To surmise, research documents that regular meetings of these audit committees improve their diligence, efficiency and effectiveness, leading to better company performance and reduced risk of internal control and reporting issues (Abbott et al., 2000; Adelopo et al., 2012; Allegrini & Greco, 2013; Alqatamin, 2018; Bedard et al., 2004; DeFond & Francis, 2005; DeZoort et al., 2002; Greco, 2011; Karamanou & Vafeas, 2005; Li et al., 2012; Nuhu et al., 2017; Singhania & Panda, 2022; Soliman & Ragab, 2014; V. Sharma et al., 2009; Zhang et al., 2007). Regular meetings also strengthen audit committees' monitoring function and oversight of company activities, performance, reporting, and disclosures. Nevertheless, literature also documents an inverse relationship between audit committee meetings and attendance in the audit committee meetings on firm performance (Bagais & Aljaaidi, 2020; Gupta & Mahakud, 2021; Hsu & Petchsakulwong, 2010; Rahman et al., 2019; Xie et al., 2003), whilst Al-Jalahma (2022) and Chatterjee and Rakshit (2023) found no association.

In the Middle East, specifically in the Kingdom of Saudi Arabia (hereafter, KSA), multiple directorships are a distinctive circumstance and thus, the number of audit committee meetings and the attendance in the audit committee meetings are considered imperative in ensuring the operational execution of their fiduciary obligations. Extant literature documents mixed views on the competence of multiple directorships. Several studies imply that multiple directorships undermine firm performance (Baccouche et al., 2013; Ferris et al., 2003; Fich & Shivdasani, 2006; Hauser, 2018; Jiraporn et al., 2009; Mendez et al., 2015; Sun et al., 2014; V. D. Sharma & Iselin, 2012), while literature also put forward a positive influence of multiple directorships in terms of enhanced firm performance (Chang et al., 2011; Field et al., 2013; He & Yang, 2014; Liao & Hsu, 2013). However, Hasnan et al. (2020) and Al-Matari (2022) inferred that the audit committee members' multiple directorships has no significant impact on firm performance. With these inconclusive results, and the fact that directors normally hold multiple board seats and advance their expertise to the boards of serving firms, it would be interesting to investigate an interesting question: "*Is Audit Committees' multiple directorship a blessing or a burden in the context of KSA?*"

Recent studies on audit committee are predominantly examining the impacts of audit committees' attributes and independence, i.e., presence of royal family members on the board, external members on the audit committee, independent director tenure and audit committee tenure on earnings management, firm performance, or corporate reporting (Al Duais et al., 2021; Al-Absy et al., 2019; Alquhaif et al., 2021; Bamahros et al., 2022; Fariha et al., 2022). To further contextualize the prevailing works on corporate governance mechanisms, KSA serves as an interesting backdrop due to its unique cultural and institutional setting. Underpinned by the socio-emotional wealth and resources dependence theory, this study intends to investigate the extent to which audit committee directors' multiple directorships moderate the relationship between the number of audit committee meetings and the attendance in the audit committee meetings on firm performance in KSA. This will also be an extension to other recent studies on audit committee, its effectiveness and multiple directorship (Al-Matari, 2022; Hasnan et al., 2020; Kamaludin et al., 2020; Liu et al., 2022; Singhania & Panda, 2022). KSA has been identified as the research context since there is a paucity of studies piloted in KSA on audit committee members' multiple directorships within the context of the audit committees' number of meetings and attendance in the audit committee meetings. The outcome of this study could give further insights to the regulatory bodies as most governance code is silent on the reporting of number of audit committee meetings, the meetings' attendance and the extent and degree of multiple directorships. In fact, Core et al. (1999), Vafeas (2005) and (1996) documented that independent directors' multiple directorships may hinder them from executing their fiduciary duties meritoriously due to their over commitment.

2. Hypotheses development

2.1. Theoretical underpinning

This study employs the Socioemotional Wealth Theory (SEW) (Berrone et al., 2012) and Resource Dependence Theory (RDT) (Pfeffer & Salancik, 2003) to explain the relationships between the number of audit committee meetings, attendance in the audit committee meetings, audit committee members' multiple directorship and firm performance. SEW theory is a behavioral-based theory and centers around distinctive family firms' behavior. According to the SEW theory, family firm owners develop non-financial values from their firm ownership, thus are willing to sacrifice the financial benefits (Berrone et al., 2012). Conversely, RDT suggests that the inclusion of board capital (i.e., independent directors with multiple directorships in the audit committee) leads to the provision of resources. These independent directors with multiple directorships have the reputation, experience, information, and aptitude to undertake both manager-monitoring activities and to provide advice and direction to management (Pfeffer & Salancik, 2003).

2.2. Saudi code of corporate governance (SCCG)

Saudi Code of corporate governance is principle-based, and it focuses on establishing a set of guiding principles that all businesses should adhere to. In 2006, the Capital Market Authority of Saudi Arabia (CMA) established the Saudi Code of Corporate Governance (SCCG) in an effort to modernize its financial and corporate sector and to promote good governance practices in its capital markets. The Code was updated in 2017 to incorporate new ideas and to align with global standards. Main changes made are related to the new provisions concerning board diversity and audit committee responsibilities, as well as stricter disclosure requirements. Overall, the differences between the 2006 and 2017 versions of the Saudi Code of Corporate Governance are related to audit committees reflecting a greater emphasis on independence, expertise, oversight, and reporting. The 2017 revision aims to strengthen the role of audit committees in promoting good corporate governance practices and ensuring the quality and reliability of financial reporting. In 2020, the Saudi Code of Corporate Governance was further updated. New provisions on board diversity, risk management, and the board's responsibility for regulating ESG issues have been added to the revised Code. Since its inception in 2006, the Saudi Code of Corporate Governance has been updated several times with the goal of further solidifying the principles and practices of good corporate governance in the country. The Saudi Code of Corporate Governance has increased the transparency and accountability in the business world by mandating that companies disclose more information about their operations, financial performance, and governance practices, and by making company executives and directors answerable for their decisions and actions. Investors' and other parties' trust in the industry has been reinforced and strengthened. Nevertheless, there is room for improvement in the areas of enforcement and corporate culture, despite the fact that the Code provides guidelines for good governance practices. It may be argued that agency theory has overlooked the cultural aspects of Saudi Arabia, namely the extent to which owners of Saudi firms are able to create a corporate governance framework to match their needs (Al-Faryan, 2020).

2.3. Overview of audit committee requirements

To enhance high-quality corporate governance and ensure transparent business environments, several regulatory codes on the composition of audit committee is established worldwide. UK Corporate Governance Code and the Sarbanes-Oxley Act require the establishment of an audit committee in public companies, consisting of independent non-executive directors and at least one financial professional. The study by V. Sharma et al. (2009) on an international comparison of audit committee requirements indicates that most countries have similar requirements; audit committee formation is voluntary but on a "comply or explain basis" (except for the USA). In the USA, audit committee formation is mandated by law and rules. As for the audit committee composition, countries compared in the above study (V. Sharma et al., 2009) indicated that it should predominantly be independent directors, with a minimum of one financial expert. In terms of the audit committee roles and responsibilities, high similarities are noted, especially in the

Table 1. An overview of audit committee requirements for Saudi Arabia

Regulation	Saudi's Corporate Governance Regulation
Formation	Mandatory – 'comply or explain' basis
Composition	No Executive directors
	Not less than 3 directors or more than 5 directors
	One member must be financial expert
	Chairman must be independent director
Financial Expert & Literacy	Recommends one finance and accounting expert but does not have to be Independent.
External audit	Provide recommendation in terms of nomination and/or termination of external auditors, compensation package, performance evaluation and scope of work.
	Verifying the independence of the external auditors
	Reviewing and certifying the scope of work for external auditors.
Internal Control	Examining and reviewing companies' internal control and risk management system.
	Examining internal audit report and implementing counteractive measures
	Monitoring and overseeing the performance and activities of internal auditor.
	Recommendation to the board on the selection of the head of internal auditor.

context of external auditors' selection and internal control responsibilities. Table 1 further illustrates the audit committee requirements in the Saudi Arabia context.

Section 14(c) of KSA's Corporate Governance Regulations (SCGC) (as shown in Table 1) (Capital Market Authority CMA, 2006) states that ... "the Board of Directors shall set up a committee to be named the "Audit Committee". KSA's SCGC was voluntary from 2006 to 2009 but has been made compulsory since 2010 for listed companies, i.e., companies need to demonstrate adherence to the regulations of SCGC on a "comply or explain" basis. In terms of audit committee composition, at least one director should be independent, no executive directors, not less than 3 directors or more than 5 directors, one member must be financial expert but not necessarily independent and the audit committee chairman must be an independent director. It can be concluded that the audit committee requirements for KSA do not differ from the international comparison. Presence of such guidelines is particularly vital in an environment such as KSA, where strong social norms and relationship-based business environments exist.

The next section will develop arguments related to the number of audit committee meetings, audit committee meetings' attendance and audit committee members' multiple directorships.

2.4. Number of audit committee meetings and meeting attendance

The Corporate Governance Framework recommends (not mandatory, though) that the audit committee ... "Shall assemble regularly; at least four meetings are held during the Company's financial year" (Capital Market Authority CMA, 2006, p. 36). Financial Reporting Council (2012), on the other hand, states that a minimum of three meetings annually between the audit committee members and auditors (internal) should increase the much-needed partnership and understanding on firms' financial matters. Frequent meetings will further develop the efficiency and the effectiveness of audit committee members (Alqatamin, 2018; Bedard et al., 2004; Nuhu et al., 2017), ultimately boosting company performance (DeZoort et al., 2002; Soliman & Ragab, 2014). Extant literature also shows that frequent meetings minimize the risk of delinquent occurrences on internal control and reporting (Abbott et al., 2000; DeFond & Francis, 2005; V. Sharma et al.,

2009; Zhang et al., 2007). This is mainly because such meetings underwrite monitoring roles (Greco, 2011; Karamanou & Vafeas, 2005), which is one of the key purposes of audit committees. Studies by Li et al. (2012) and Allegrini and Greco (2013) further support the above as audit committee that meets regularly enables constant monitoring of the company performances, its reporting, and disclosures. A recent study by Singhanian and Panda (2022) further establishes the fact that audit committee meetings and attendance positively impact audit committee effectiveness. Nonetheless, there is also a negative correlation between audit committee meetings and firm performance that has been documented in the literature (Bagais & Aljaaidi, 2020; Gupta & Mahakud, 2021; Hsu & Petchsakulwong, 2010; Rahman et al., 2019; Xie et al., 2003). Recent studies by Al-Jalahma (2022) and Chatterjee and Rakshit (2023), found no association between audit committee meetings and firm performance. To surmise, recent studies seem to give mixed outcome, but earlier studies clearly designate the importance of audit committee meetings and the attendance at these meetings, as it will ensure smooth and effective execution of the audit committee roles and responsibilities, primarily in terms of monitoring the financial reporting procedures, the auditing and assurance process, its internal control systems and conformity with governance, law, and regulation.

From Saudian perspective, the unique cultural structures, highly tiered social norms, familial and personal relationships, are exclusive set-ups, since majority of the businesses are family owned. Thus, family stewardship is a common phenomenon, whereby family business owners tend to be more involved in the daily activities of a firm and ultimately, governing majority of the firm affairs (Eulaiwi et al., 2016). Based on the SEW theory, family owners primarily emphasize on sustaining their control and power on the firm performance, at the expense of low financial performance (Miller & Le Breton-Miller, 2014). Although family owners need to minimize the possibilities of firm failures, they tend to be more conservative by circumventing to business matters and ultimately causing detrimental financial outcome (Gómez-Mejía et al., 2007). The authors further explained that owners would be willing to pursue non-financial objectives, while accepting a reduced financial performance. Therefore, family businesses ought to maneuver a trade-off between financial performance and family power. In fact, Schepers et al. (2014) stated that, in addition to the impact on financial performance, SEW also negatively impacts the business positioning and performance as family firms are willing to ransom economic advances in their pursuit to reserve SEW. In that context, though the number of audit committee meetings and attendance in the audit committee meetings may contribute towards the effectiveness of financial reporting and lessen information asymmetry in normal circumstances, in the KSA environment, family networking may act as an auxiliary to governance, transparency and sustainability. Thus, the following hypotheses are tested:

H_{1a}: *Number of audit committee meetings have an adverse effect on firms' Tobin's-Q.*

H_{1b}: *Number of audit committee meetings have an adverse effect on firms' ROE.*

H_{2a}: *Attendance in the audit committee meetings have an adverse effect on firms' Tobin's-Q.*

H_{2b}: *Attendance in the audit committee meetings have an adverse effect on firms' ROE.*

2.5. Audit committee members' multiple directorship

Board effectiveness has always been questioned in the literature. MACAvoy and Millstein (1999) documents that boards independently and actively monitor firms and provide advice and counseling. In that context, audit committees are selected by the board of directors and have an important monitoring role in ensuring the steadfastness and efficacy of the financial statement and reports, inspecting, and appraising the internal control, risk management and audit commitments (Capital Market Authority CMA, 2006). Given the diversity of board tasks, substantial time,

effort, and dedication is a prerequisite (Hauser, 2018), especially when the demand for board effectiveness is becoming even more crucial in the presence of new code of practice, deeper public scrutiny, and the likelihood of lawsuits (Mendez et al., 2015). Given the stringent requirements and increased expectations on boards as the highest supervisory and expert role in the company, it has also led to limited supply of directors, especially in an emerging economy like Saudi Arabia. Thus, it is common to observe that directors serve on multiple boards at a single time, also known as multiple directorships.

The key concern that comes with multiple directorships are linked with directors' "busyness", which could result in reduced firm performance (Ahn et al., 2010). Studies suggest that multiple directorships weaken boards' ability to oversee and supervise firm activities (Baccouche et al., 2013; Fich & Shivdasani, 2006; Mendez et al., 2015; Sun et al., 2014) and its inability to effectively advise (Jiraporn et al., 2009) and thus, decrease stakeholders' confidence and trust (Cooper & Uzun, 2012; Fich & Shivdasani, 2006). It has also been observed that multiple directorships are related to the re-allocation of wealth between minority and substantial shareholders (Leuz et al., 2003), reducing boards' capacity in easing issues related to asymmetric information (Jensen & Meckling, 1976) and potentially exacerbating the agency costs (Jensen & Meckling, 1976). As a result, when directors reduce their multiple directorships through reduced board seats holding, it is documented that firm performance is enhanced from both market-based (Tobin's- Q) and accounting profitability (Return on Assets) (Brown et al., 2019; Hauser, 2018).

Specifically looking at the role of the audit committee, earlier studies documented some evidence associating directors' "busyness" with financial information (Beasley, 1996; Larcker et al., 2007). Mixed results are found linking multiple directorships with the financial reporting value (proxied—discretionary Accruals) (Chang et al., 2011; Liao & Hsu, 2013). Mendez et al. (2015) studied the relationship amongst multiple directorships' commitments, board performance and compensation. They observed that in large firms, busy directors have severe over commitment problems, which is detrimental to their monitoring role, as substantiated by the "busyness hypothesis" (Ferris et al., 2003). Similar sentiments were documented by Hasnan et al. (2019), whereby multiple directorships of audit committee members have significant negative impacts on financial restatement. While directors' busyness has been linked to ineffective monitoring, Field et al. (2013) advocates that busy directors' experience, connections and networking capabilities make them as excellent corporate advisors and they provide leads in navigating public markets, ultimately enhancing firm value. This argument fits with the resource's dependence role of the board (Hillman et al., 2000). The authors also refuted that busy directors lack commitments due to being spread too thin, but further suggested that firms with busy boards are as steadfast as non-busy boards.

Another favorable view associating multiple directorships with positive firm performance calls for "busy directors" as a signal of directors' reputation and credibility as corporate monitors. The "reputation argument" suggests that multiple directorships are valuable as it assist directors to advance their managerial and business acumen skills. By sitting on many boards, these directors are exposed to diverse management styles and approaches (Carpenter & Westphal, 2001; Perry & Peyer, 2005). Multiple directorships also provide certification about the directors' ability and expertise (Fama & Jensen, 1983). Naturally, highly competent, and experienced directors with proven track records are extremely sought-after, hold many directorships and are involved in many board committees (Jiraporn et al., 2009). Nonetheless, despite their "busyness", these directors are highly motivated in ensuring diligent monitoring of organizations' activities as it links directly to their human capital value in the labor market and enhances their prospects for future directorships (Fama, 1980). To maintain their reputation, directors exercise effective oversight and control that leads to positive firm value.

R. Masulis and Mobbs (2014) found evidence that is consistent with the reputation incentives arguments. They argue that directors' reputation spurs their effort in terms of attendance and

participation in board meetings and committees. Extending their earlier study, R. W. Masulis and Mobbs (2017) further suggested that directors assign relative reputation value to each directorship, rather than simply treating each directorship as equally important. As such, directors prioritize accordingly their involvement across these boards, in terms of time and effort. This is supported by a recent study by Liu et al. (2022) and Kim (2022), who suggested that busy directors who are serving on several boards disproportionately assign their time and effort, mainly enticed by firms' risk and higher advising needs. Reputation concerns also determine the directors' likelihood of staying during period of turmoil and poor performance (R. Masulis & Mobbs, 2014; Fahlenbrach et al., 2017). Thus, R. Masulis and Mobbs (2014) argued that directors' reputation affects firm performance and values. Nevertheless, Al-Matari (2022) and Hasnan et al. (2020) found that multiple directorships of audit committee members had no significant impact on firm performance.

In conclusion, audit committees have important monitoring mechanism roles, as they are responsible to questions by management and to decrease asymmetric information between the executive directors and independent directors (Bliss et al., 2011). To ensure excellence in monitoring, it is anticipated that the board will nominate reputable independent directors in the business industry to occupy the seats on the audit committee. From the perspectives of resource dependency theory (RDT), these directors also carry expert-advisory and boundary-expanding role that lends to positive effects and signals on their monitoring and advising responsibilities, ultimately adding to positive firm value (Jiraporn et al., 2009). Multiple directorships garner reputation as being the expert in the field and trustworthiness, which will lead to active monitoring of managerial decisions. In addition, the directors themselves have strong need to maintain their reputation and human capital value, thus resorting to high quality monitoring to fulfil the expectations placed on them. Consequently, audit committee members' multiple directorships are expected to have a positive influence on the association between number of audit committee meetings, attendance in the audit committee meetings and companies' performance. The following research hypotheses will be examined:

H_{3a}: *Multiple directorships modifies the association between the number of audit committee meetings and Tobin's-Q.*

H_{3b}: *Multiple directorships modifies the association between the number audit committee meetings and ROE.*

H_{3c}: *Multiple directorships modifies the association between the attendance in the audit committee meetings and Tobin's-Q.*

H_{3d}: *Multiple directorships modifies the association between the attendance in the audit committee meetings and ROE.*

3. Research methods

The study sample used 485 firm-year companies listed on Tadawul (Saudi Stock Exchange), between 2012 and 2017, prior to the adoption of IFRS in Saudi Arabia. Banks and insurance companies were excluded as they are subject to specific regulations. Panel Generalized Least Square with cross-section random effect is used as the analysis tool to examine the data tested. Swamy-Arora weighting effect is used for the random effect (Swamy & Arora, 1972). This method also controls for heterogeneity problems and allows more data points. The independent and moderating variables (number of audit committee meetings, audit committee meetings' attendance and audit committee members' multiple directorships) were hand-collected from the annual reports in Tadawul, while the data for dependent variables (Tobin's-Q and ROE) were

extracted from Bloomberg. Control variables which were not available in the Bloomberg database were hand-collected from the annual report. Variables measurement is as shown in Table 2.

Models 1 and 2 test hypotheses H_{1a}, H_{1b}, H_{2a} and H_{2b}:

$$\text{Tobin's-Q}_{it} = \beta_0 + \beta_1 A_{it} + \beta_2 F_{it} + \beta_3 FA_{it} + \beta_4 FS_{it} + \beta_5 ACS_{it} + \beta_6 ID_{it} + \beta_7 OF_{it} + \beta_8 AR_{it} + \varepsilon \quad (1)$$

$$\text{ROE}_{it} = \beta_0 + \beta_1 MA_{it} + \beta_2 MF_{it} + \beta_3 FA_{it} + \beta_4 FS_{it} + \beta_5 ACS_{it} + \beta_6 ID_{it} + \beta_7 OF_{it} + \beta_8 AR_{it} + \varepsilon \quad (2)$$

Table 2. Variables description and measurement

Variables	Operationalization	Source
Independent variables		
Number of audit committee meetings	Number of meetings audit committees' holds in one calendar year	Annual Report (Tadawul).
Audit committee meetings' attendance	The overall percentage of meeting attendance of all audit committee members.	Annual Report (Tadawul).
Audit committee directors' multiple directorship	A binary variable of 1 is assigned if audit committee members have outside directorships and a 0 if otherwise.	Annual Report (Tadawul).
Dependent variables		
Tobin's-Q (TQ)	Total Market Value of Firm/Total Asset Value of Firm.	Bloomberg database
Return on Assets (ROA)	Net Income/Total Assets	Bloomberg database
Control variables		
Firm Size (FS)	Natural log of total assets	Annual Report (Tadawul)
Firm Age (FA)	Difference between year of study and the year of incorporation.	Annual Report (Tadawul).
Audit Committee Size	Number of audit committee members.	Annual Report (Tadawul).
Auditor's Reputation (AR)	A binary variable of 1 is assigned if the auditors are one of the big-4 CPAs and a 0 if otherwise.	Annual Report (Tadawul).
Family Ownership (FB) <i>Family business is identified if at least 2 members in the BOD are family members or if the ownership of the firm by family members are more than 50%.</i>	A binary variable of 1 is assigned for family business and a 0 if otherwise.	Annual Report (Tadawul).
Independent Directors in Audit Committee (ID) <i>A director from the Board of Directors who does not have any pecuniary relationship and is not involved in the executive management of the firm.</i>	Total number of independent directors in the audit committee/ total number of directors in the audit committee.	Annual Report (Tadawul).
Outside directors in audit committee (OD) <i>Members in the Audit committee who are non-board of directors (BOD) and are mainly from outside the firm.</i>	Total number of outside directors in the audit committee/total number of directors in the audit committee	Annual Report (Tadawul).

Models 3 and 4 test hypotheses H_{3a}, H_{3b}, H_{4a} and H_{4b}:

$$\text{Tobin's-Q}_{it} = \beta_0 + \beta_1 \text{MA}_{it} + \beta_2 \text{MF}_{it} + \beta_3 \text{MA}_{it} \times \text{MD}_{it} + \beta_4 \text{MF}_{it} \times \text{MD}_{it} + \beta_5 \text{FA}_{it} + \beta_6 \text{FS}_{it} + \beta_7 \text{ACS}_{it} + \beta_8 \text{ID}_{it} + \beta_9 \text{OF}_{it} + \beta_{10} \text{AR}_{it} + \varepsilon \quad (3)$$

$$\text{ROE}_{it} = \beta_0 + \beta_1 \text{MA}_{it} + \beta_2 \text{MF}_{it} + \beta_3 \text{MA}_{it} \times \text{MD}_{it} + \beta_4 \text{MF}_{it} \times \text{MD}_{it} + \beta_5 \text{FA}_{it} + \beta_6 \text{FS}_{it} + \beta_7 \text{ACS}_{it} + \beta_8 \text{ID}_{it} + \beta_9 \text{OF}_{it} + \beta_{10} \text{AR}_{it} + \varepsilon \quad (4)$$

Where,

MD—AC Multiple Directorship

MA - % of meeting attendance

MF—Number of AC meetings

ROE—Return on Equity

FA—Firm age

FS—Firm size

ACS—AC size

ID- independent directors in AC,

OF- outside directors in the AC

AR—Auditors' reputation

4. Results and discussion

4.1. Descriptive analysis

Results on Table 3 indicate that on average, companies' audit committee meetings are held 8 times annually (exceeding the minimum expectation) and the meetings' attendance is 68%. The means of independent directors and outside financial experts in the audit committee are 63% and 34%, respectively, indicating that more than two-thirds of the audit committees have independent directors. This reflects good governance as the audit committee requirement is to have at least one independent director in the audit committee. The mean for outside financial experts of 34% is predominantly due to the requirement of having a financial expert in the audit committee. As for the dependent variables, i.e., Tobin's-Q, and ROE, the average values are 1.16, and 14.48% respectively. The average values of some of the control variables are: firm age – 31.45 years, and firm size – 8.5 million. Eighty-six percent of the companies are audited by Big4 audit firms.

4.2. Regression analysis

Tables 4 and 5 are the correlation metrics for variables used in the regression analysis, where the correlations range from 0.316 to 0.394, and 0.316 to 0.651. Thus, we conclude that there is no evidence of multicollinearity among the independent variable used.

Breusch-Pagan Lagrange Multiplier test (Table 6) shows that for all the models in this study, we reject the null hypotheses of “no random effect”, and proceed with Panel EGLS (Cross-section random effects) estimations.

Table 3. Descriptive statistics based on the 485 firm-year based Tadawul companies

	Mean	Min	Max
Number of audit committee meetings	8	4	10
Audit committee meeting attendance	68%	41%	100%
Independent Directors in audit committee	63%	18%	100%
Outside financial experts in audit committee	34%	0%	54%
Tobin's-Q	1.16	0.46	1.64
ROE	14.48	-49.54	56.59
Firm age (FA)	31.45	8.000	90.00
Log firm size (FS)	8.509	6.409	12.33
Auditors' reputation (AR)	0.862	0.000	1.00

Table 4. Correlation metrics for independent variables used in Models 1 and 2

	V1	V2	V3	V4	V5	V6	V7	V8
V1		0.047	-0.063	-0.063	0.135	0.147	0.240	0.209
V2	0.047		-0.072	-0.267	0.040	-0.217	-0.010	-0.035
V3	-0.063	-0.072		0.147	0.113	-0.184	-0.203	0.394
V4	-0.063	-0.267	0.147		0.347	0.311	-0.316	0.163
V5	0.135	0.040	0.113	0.347		0.069	-0.114	0.208
V6	0.147	-0.217	-0.184	0.311	0.069		-0.099	0.090
V7	0.240	-0.010	-0.203	-0.316	-0.114	-0.099		0.037
V8	0.209	-0.035	0.394	0.163	0.208	0.090	0.037	

Max = 0.394, Min = 0.316. V1=Number of audit committee meeting, V2=Audit committee meeting attendance, V3=Firm Age (FA), V4=Log Firm Size (FS), V5=Auditors' reputation, V6=Audit committee size (AS), V7=% of independent directors on audit committee, V8=Outside financial expert on audit committee.

Table 5. Correlation metrics for independent variables used in the correlation metrics for variables

	V1	V2	V3	V4	V5	V6	V7	V8	V9	V10
V1		0.047	0.071	0.035	-0.063	-0.063	0.135	0.147	0.240	0.209
V2	0.047		0.651	0.019	-0.072	-0.267	0.040	-0.217	-0.010	-0.035
V3	0.071	0.651		0.328	-0.044	-0.144	-0.114	-0.067	0.102	0.026
V4	0.035	0.019	0.328		-0.051	0.345	-0.225	0.173	0.015	0.167
V5	-0.063	-0.072	-0.044	-0.051		0.147	0.113	-0.184	-0.203	0.394
V6	-0.063	-0.267	-0.144	0.345	0.147		0.347	0.311	-0.316	0.163
V7	0.135	0.040	-0.114	-0.225	0.113	0.347		0.069	-0.114	0.208
V8	0.147	-0.217	-0.067	0.173	-0.184	0.311	0.069		-0.099	0.090
V9	0.240	-0.010	0.102	0.015	-0.203	-0.316	-0.114	-0.099		0.037
V10	0.209	-0.035	0.026	0.167	0.394	0.163	0.208	0.090	0.037	

Max = 0.651, Min = 0.316.

V1 = Number of audit committee meeting, V2 = Audit committee meeting attendance, V3 = Audit committee multiple directorship × audit committee, V4 = Audit committee multiple directorship × number of audit committee meetings, V5 = Firm Age (FA), V6 = Log Firm Size (FS), V7 = Auditors' reputation, V8 = Audit committee size (AS), V9 = % of independent directors on audit committee, V10 = Outside financial expert on audit committee.

Table 7 shows the results for the Panel Generalized least square regression. Models 1 and 2 have an adjusted R^2 of 0.59 and 0.71, indicating that the independent variables (number of audit committee meetings, audit committee meetings' attendance and firm characteristics) are collectively 59% and 71% related to ROE and Tobins-Q respectively. Hypotheses H_{1a} , H_{1b} , H_{2a} , and H_{2b} test the inverse relationships between the number of audit committee meetings and the attendance in the audit committee meetings, on the ROE and Tobin's-Q respectively. Except for hypothesis H_{1a} , the empirical evidence indicates a significant negative relationship between the number of audit committee meetings and the attendance in the audit committee meetings, on ROE and Tobin's-Q. H_{1a} , is not supported.

The results indicate that, frequent audit committee meetings and the attendance in the audit committee meetings causes weak firm performance. As discussed in the hypotheses development, considering the context of Saudi Arabia, where most firms listed in the Saudi Arabian Stock Market (Tadawul) are family-based or government-controlled (Alhebri et al., 2021; Qobo & Soko, 2010), the

Table 6. Breusch-Pagan Lagrange Multiplier Tests for Random Effects

	Cross-section	Time	Both
Model 1 Probability	158.408	0.005	158.413
	0.000	-0.944	0.000
Model 2 Probability	335.802	1.192	336.994
	0.000	-0.275	0.000
Model 3 Probability	328.222	1.132	329.354
	0.000	-0.287	0.000
Model 4 Probability	149.013	0.000	149.013
	0.000	-0.992	0.000

Null hypotheses: No effects.

Table 7. Relationship between number of audit committee meetings, meeting attendance and firm performance

	Model 1		Model 2	
	ROE		Tobin's-Q	
Number of audit committee meetings	-0.2643*	0.0769	-0.0217	0.6956
Audit committee meeting attendance	-0.0344*	0.0167	-0.0365***	0.0000
Firm Age (FA)	0.0108***	0.0000	0.0090***	0.0000
Log Firm Size (FS)	2.0472***	0.0000	0.9852***	0.0000
Auditors' reputation	-3.8553***	0.0000	-3.8049***	0.0000
Audit committee size (AS)	-1.4249***	0.0002	-1.3146***	0.0000
% of independent directors on audit committee	0.0684***	0.0000	0.0765***	0.0000
Outside financial expert on audit committee	-1.1970	0.1113	-2.1935***	0.0000
Adjusted R^2	0.59		0.71	
F-statistics	41.07		69.10	

Notes: * $p < 0.10$; ** $p < 0.05$; *** $p < 0.01$.

monitoring roles of audit committee does not seem to have much impact on firm performance. Though frequent audit committee meetings and audit committee meetings' attendance should enhance the monitoring roles on financial performance, increase the effectiveness of financial reporting, ensure proper internal control and risk management system and reduce information asymmetry, their role may be affected by the institutional context of KSA. The presence of high family ownership and their affiliation with members of the family act as a substitute for the monitoring roles expected from the audit committee members. In fact, as highlighted by Alfordy (2016) in Al Duais et al. (2021), three Saudi families control more than 41% of executive board positions in Tadawul, and they control the boards of 68 listed companies. Meanwhile, 17 other families lead the boards of other Saudi listed firms. As such, traditional markets such as KSA have informal institutions emphasizing relational versus legal contracts, tribal culture, and liberal market capitalism (Alzeban, 2015).

Thus, in firms that are predominantly family-owned, having more audit committee meetings or having a high percentage of attendance in the strictest form are not entirely purposeful in terms of firm performance, hence supporting the socio-emotional wealth theory. In essence, it is suggested that companies decide on the business-related actions to be taken based on its socio-emotional endowment. Families are willing to forego economic benefits and rationality and would be willing to put the firm at risk, merely to preserve SEW (Berrone et al., 2012). Thus, family businesses must maneuver a trade-off between economic performance and non-jeopardizing of the family power. High degree of monitoring and questioning by audit committee members at meetings may act as a hindrance to family owners to pursue activities or business transactions that may have a positive impact on firm performance. In other words, firms may not be able to fully utilize their informal institutions which emphasizes relationship in multiple contexts for the benefit of firm performance.

Model 3 on Table 8 indicates a significant moderation effect of multiple directorships on the association between number of audit committee meetings and meeting attendance against Tobin's-Q at 1% level. As stated earlier, this study measures multiple directorships as "audit committee members having outside directorships", thus the sole "resource" examined in this study with reference to the resource dependence theory is the audit committee member's outside directorship. Since the multiple directorships is a binary variable, Table 9 has been extracted for the purpose of statistical explanation. The results designate that, except for audit committee meeting attendance and ROE, when multiple directorships exist in a firm, it has a positive moderating effect among the test variables. Thus, H_{3a} , H_{3b} and H_{3c} are supported. These results contribute to the extant literature because, in the earlier circumstance (Table 7), there was an inverse relationship, but the relationship is altered in an environment with audit committee members having multiple directorships. As argued by resource dependence theory, these busy directors are prudently selected by the firm owners, and they play their role as independent and diligent firm monitors. They act as watchdog for the shareholders who have elected them as audit committee representatives to play an oversight role on all financial and auditing matters. They also play a pivotal supervisory and expert role as their experience and networking capabilities make them as excellent corporate advisors and improve firm performance and market value.

In essence, multiple directorships act as a certification to the directors' ability, experience, and networking capabilities. Thus, despite their busyness, they are also highly motivated to preserve their reputation capital as it links directly to their human capital and long-term sustainability of their position and relationships with the firm owners. Additionally, audit committee members with multiple directorships also reduce information asymmetry, which further enhances firm value, as reflected by Tobin's-Q. The above traits of multiple directorships further enrich the efficiency of audit committee roles in terms of proper internal control and risk management, high levels of disclosure and good reporting practices. Increased audit committee meeting attendance of busy directors contribute towards a higher level of monitoring role and at the same time, increase firm performance through their extensive networking competencies and know-hows. All these put together foster a positive influence of multiple directorships on companies' performance.

Table 8. Moderation effects of multiple directorships on number of audit committee meetings, audit committee meetings' attendance, and firm performance

	Model 3		Model 4	
	Tobin's-Q		ROE	
Number of audit committee meetings	-0.0156	0.7605	-0.3389*	0.0301
Audit committee meetings' attendance	-0.0558***	0.0000	-0.0469	0.1254
Audit committee multiple directorship x audit committee meetings' attendance	0.0426**	0.0017	-0.0170	0.6146
Audit committee multiple directorship x number of audit committee meetings	0.4817***	0.0000	0.6947***	0.0007
Firm age (FA)	0.0098***	0.0000	0.0114***	0.0000
Firm size (FS)	0.5248***	0.0031	0.9108*	0.0201
Auditors' reputation (AR)	-1.7438***	0.0092	-0.9665	0.4088
Audit committee size (AS)	-1.4129***	0.0000	-1.2976***	0.0037
% of independent directors on audit committee	0.0619***	0.0000	0.0745***	0.0000
Outside financial experts on audit committee	-3.7424***	0.0000	-1.4278	0.1015

Notes: * $p < 0.10$; ** $p < 0.05$; *** $p < 0.01$.

5. Conclusion and future research

This study examines the association between the number of audit committee meetings and audit committee meetings' attendance on companies' performance in Saudi Arabia. The study also tests the moderation effects of audit committee members' multiple directorships on the above association. To test these relationships, a Panel Generalized least square was performed on selected companies listed on Tadawul. A significantly negative relationship is documented on the relationship between the number of audit committee meetings and audit committee meetings' attendance and companies' performance except for the number of audit committee meetings and Tobin's-Q. As for the moderation effects of audit committee members' multiple directorships, a positive moderation effect is documented, apart from audit committee meetings' attendance and ROE.

The findings of this study provide valuable insights to policymakers and practitioners. The results should provide support to regulatory authorities to legislate effective regulations to make internal governance mechanisms work more effectively in the country. Specifically on the multiple directorships, the positive moderation effects of multiple directorships on business performance show that audit committee members who serve on many boards can provide significant knowledge and skills. Nevertheless, to ensure long-term sustainability, it is proposed that the Saudi Corporate Governance Code should limit audit committee members' directorships. It is essential that audit

Table 9. Summarized statistical interpretation of the moderation effects of multiple directorships on number of audit committee meetings, audit committee meeting attendance and firm performance

Moderation effects of multiple directorship on the relationship between number of audit committee meetings, audit committee meetings' attendance and Tobins-Q	Multiple directorship	Meeting Attendance	Number of Meetings
TOBINS-Q	0	-0.0558**	-0.0156
	1	-0.0132**	0.4661
Moderation effects of multiple directorships on the relationship between number of Audit committee meetings, Audit committee meetings' attendance and ROE	Multiple directorship	Meeting Attendance	Number of Meetings
ROE	0	-0.0469	-0.3389*
	1	-0.0639	0.3558 *

committee members serve on only a limited number of other boards to ensure their continued effectiveness, impartiality, and independence. Being a member in too many boards could overwhelm the members with commitments, unable to devote enough time to all boards, and potentially falling behind on their governance practices. Legislating this standard procedure could ensure efficient monitoring and encouraging sustainable long-term success in corporate governance.

With regard to audit committee board independence, Article 51 of the updated Saudi Corporate Governance Regulation states that the audit committee shall have at least one independent director, the chairman of the audit committee shall be an independent director and half of the audit committee's members must be independent directors. This move should further strengthen the board independence. However, to enhance transparency, the code could be improved by requiring companies to disclose more information about their governance practices, such as the number of board meetings held each year, the attendance record of each director, and the procedures for evaluating the performance of the board and individual directors. The code could be strengthened by requiring companies to have a clear process for holding directors and executives accountable for their actions, including clear standards for performance and consequences for failure to meet those standards. Finally, the code could be improved by strengthening the enforcement mechanisms to ensure that companies comply with the code. This could include the imposition of fines or other penalties for non-compliance and the establishment of an independent regulatory body to oversee compliance with the code.

This study could be further expanded from different perspectives. First, a comparative study could be undertaken using other GCC countries to examine if social and institutional characteristics play a role in the abovementioned relationships. In practical terms, it could lead to more context-aware recommendations and guidelines in audit committee, auditing, or governance. Second, since ownership is a distinct feature in KSA, the study can also be extended in terms of the moderation role of firms' ownerships (family, government, and institutional investors) on audit committee characteristics and firm performance, firm valuation, cost of capital, etc. Third,

contemporary issues such as the impacts or roles of board of directors and audit committees on the swift adoption of digital transformation, big data and blockchain application in financial reporting, internal control applications and auditing and its ultimate impacts on company performance could be examined. In summary, it is intended that this study underwrites a comprehensive and conclusive knowledge on number of audit committee meetings, audit committee meetings' attendance and the impact of audit committee members' multiple directorships on firm performance in a non-western, traditional economy. In turn, it may contribute to the development of a more effective governance structure for the audit committee, and contribute towards enhanced monitoring of internal controls, internal and external auditing norms, and financial reporting, while preserving the owning family's idiosyncratic competency of operating in the context. This in turn may serve the interests of multiple stakeholders.

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