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Research Article

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Board of Directors, Audit Committee and Firms' Performance

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ABSTRACT

This study explores the different attributes of audit committees and boards of directors' effect on firm performance. Mainly the board's size and independence and the audit committee's employment, size, independence, financial experience, and frequency of meetings. This paper also talks about resource dependency theory which considers that. Non-independent directors have a positive effect on firm performance. On the contrary, agency theory suggests that the more independent the board is, the better the performance. Many accounting scandals and worldwide failures in corporate governance have occurred in the past few decades, affecting stakeholders and taking a heavy toll on national and global economies. After many infamous corporates, the United States passed the Sarbanes-Oxley Act (SOX), which acted to heighten the responsibilities of the board of directors in corporations, promotes fairness to both shareholders and stakeholders alike by enforcing listed companies to employ independent, knowledgeable, and proactive audit committees and directors and ultimately set the utmost importance on the protection of investors and stakeholders. Taking a sample of 96 companies, the results show that a more extensive and independent board positively affects business results, and the same applies to the implementation of an audit committee. However, our results found no link between the different characteristics of audit committees with firm performance. The findings above give us insight into how companies' governance operates.

Keywords: Board of directors, Audit committee, Agency theory, Resource dependency theory

INTRODUCTION

Many accounting scandals and worldwide failures in corporate governance have occurred in the past few decades, affecting stakeholders and taking a heavy toll on national and global economies. After many infamous corporates, the United States passed the Sarbanes-Oxley Act (SOX), which acted to heighten the responsibilities of a board of directors in corporations, promote fairness to both shareholders and stakeholders alike by enforcing listed companies to employ independent, knowledgeable, and proactive audit committees and directors, and to ultimately set the utmost importance on the protection of investors and stakeholders (Bawaneh, 2020). Policymakers, regulators, and researchers have emphasized the role of audit committees and boards of directors in corporate governance. Over the years, regulators accused companies of hiding information, having weak and negligent internal controls, and having incompetent, sometimes fraudulent directors. The mismanagement of companies combined with an ineffective board provides the perfect formula for a drop in share prices, ultimately resulting in the loss of investor confidence. Some economic disasters, such as the ones stated above, have caused the enactment of changes for better corporate governance (Aldamen et al., 2020).

Briefly, corporate governance involves balancing the interests of the company's numerous stakeholders, from shareholders to employees to the community. Furthermore, according to Cadbury, it is a system of structures and

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controls to satisfy stakeholders' interests while complying with legal requirements and regulations (Kiptoo et al., 2021) and overseeing the company's operations. Furthermore, the board of directors' level of accountability to the shareholders and the company is controlled by corporate governance (Dey & Sharma, 2021). Internal and external mechanisms are set to attempt to close the gaps and differences of interest between the owners and management due to harmful practices that can put obstacles in the way of achieving the company's goals. One of the several roles of the board of directors is to monitor executive officers' efficacy and efficiency and resolve the conflicts between shareholders and management, also known as the agency problem.

This plays an essential role in the performance of the firm. The board of directors' structure is of high importance, more specifically, the designation of independent board members. Past studies have mainly investigated the effect of the independent members on boards, the board size, how often the board meets, and even its diversity and competence on the firm's performance (Kyere & Ausloos, 2021). An independent board member is not only a director who has no shares in the respective firm but also has no special relationship of any kind with the company, whether with other directors, with management even with employees, which in turn might affect their judgment towards the decisions taken in the board (KURNIA et al., 2020).

Agency theory suggests that firms with lower agency costs – that typically arise from inefficiencies in the firm's governance and conflicts between management and shareholders – are better governed, therefore, a more significant increase in company valuation and performance (Freire et al., 2020). In other words, the better the corporate governance, the better the firm valuation. In the US, for example, it was found that companies, especially listed ones, who have a higher return on assets (ROA), better return on equity (ROE), and an increased q ratio or Tobin's Q (Tarurhor & Olele, 2020), which is calculated by dividing the firm's market value by its total assets, have better corporate governance implementations than those with lower ratios above. Resource dependency theory, on the other hand, which studies the effect of an organization's external resources on the firm's behavior, argues that directors bring experience to the company, form channels of communication with essential external stakeholders and constituents, and gather external support. Furthermore, they work to create a sense of protection for the firm in its external environment by enhancing its legitimacy in the eyes of the public (Rizani et al., 2022).

When protecting investors' interests in financial oversight and control, the audit committee is one of the most important, if not the most critical, committees a board can have. The audit committee's primary purpose is to oversee the firm's financial reporting and auditing process. These internal controls are relevant to preparing and fairly presenting financial statements and risk management applications (Kijkasiwat et al., 2022). The audit committee's role has been documented to reduce internal control weaknesses, the frequency in which financial statements are restated and increase earnings quality (Tazilah et al., 2021). However, only few studies have looked into whether audit committees have significant influence on assuring better firm performance. Traditional corporate control like the threat of takeover from outsiders, may not be enough to reduce agency conflicts in emerging markets.

PURPOSE OF THE STUDY

Numerous studies have emerged intending to investigate corporate governance systems, characteristics of boards and audit committees in already developed countries as well as vital economic regions around the globe, such as the United States, Europe and China. Meanwhile, researchers have given very little attention to corporate governance systems in emerging markets such as the Middle East and Africa (MENA) region, for only few studies have delved into the effect of the characteristics of boards and audit committees on the performance of public and private companies. Due to the fast increasing population over the last 30 or so years, and because of the region's industrialization, the Middle East has been in economic transformation, from better education, communication and mobility to a better standard of living (Aryan et al., 2022).

The Arab family business mentality has focused more on enhancing the family's socio-economic power, rather than concentrating on generating income or creating a business to fill a market need (Adu, 2022). Most of the companies are controlled by families through sometimes complex pyramid structures that let families control holding companies, which in turn, holding companies themselves, and under the Law, have the right to acquire subsidiaries or shares in numerous businesses. The issue lies with the idea that families primarily seek unlimited control over companies rather than aiming for revenue, income or financing the company in the cheapest way possible.

Family-owned businesses, be it small to mid-sized enterprises (SME) or multimillion dollar corporations, dominate the economy. This business culture does not seem to support a corporate protocol based on transparency, which will subsequently affect and put a framework on the responsibilities and roles of those charged with governance (El-Chaarani et al., 2022).

Because of the abovementioned family business" mentality, separation of ownership and control has not yet been fully fulfilled. The corporate board serves as an internal control mechanism and is responsible for monitoring and overseeing corporate management on behalf of owners. Such a situation, and because of the lack of independence and transparency, the task of effectively overseeing management's decisions becomes very difficult. It becomes even worse when looking deeper into the characteristics of the board. The law does not enforce companies to have an independent director in order to have an independent board. Therefore, investors' rights are not fully protected, and their interests may not be fully taken into consideration (Abdoush et al., 2022).

Significance of the Study

While previous studies and research have focused on corporate governance practices in already developed and economically strong countries, researchers have neglected corporate governance practices in emerging markets, especially the MENA region. Services and banking sectors dominate the country's economy holding approximately more than 70% of the country's gross national product, and surprisingly enough, a large portion of banks were family-owned. However, banks are now separating control from ownership, and are undergoing this transition with success. There is a common misconception that SMEs and non-listed companies have no use for corporate governance practices and are unimportant. Be that as it may, evidence shows that better corporate governance for all types of companies, including SMEs, leads to lower cost financing with better terms of credit.

Board Characteristics

The board of directors is an elected body charged with effectively representing shareholders' interests. The board's responsibilities focus on correcting and overseeing management decisions and performance and correcting management mishaps, additionally, the social standing and reputation of outside directors on the board are at stake, therefore they are more diligent on the oversight of management and can guarantee the firm's efficient and effective business operations, furthermore, by disclosing financial information, they guarantee equity and impartiality (Ergincan, 2011). Moreover, independent directors would be more conscientious in achieving and executing the company's strategies. A distinction must be made between outside directors and independent ones (Ashurov, 2014). Any outside director with some business interest in the company would not be independent, so in order to be fully independent, a director must have no other interest in the business other than board membership.

As per (Krafft & Ravix, 2008), boards who are effective and efficient would be mostly composed of directors who are more likely to be also directors in other companies and have a significance in their decision-making process, as they are expected to protect the interests of outside investors. (Plastow et al., 2012) show that weak performance and unsatisfactory proposals will be confronted by independent directors. (Chu et al., 2019) argues that boards lead by independent directors are prone to expel the CEO in the face of poor performance, and according to (Li et al., 2017), bad performance results in an increase in the number of independent directors. Based on the aforementioned studies, clear evidence determine that nonpartisan directors are more inclined in preserving shareholders' interests. However, In the course of business, the board of directors is almost always chosen by the chief executive officer, therefore there is a probability that any outside director chosen by the CEO is more in tune with the interests of management than with shareholders (Musa et al., 2017).

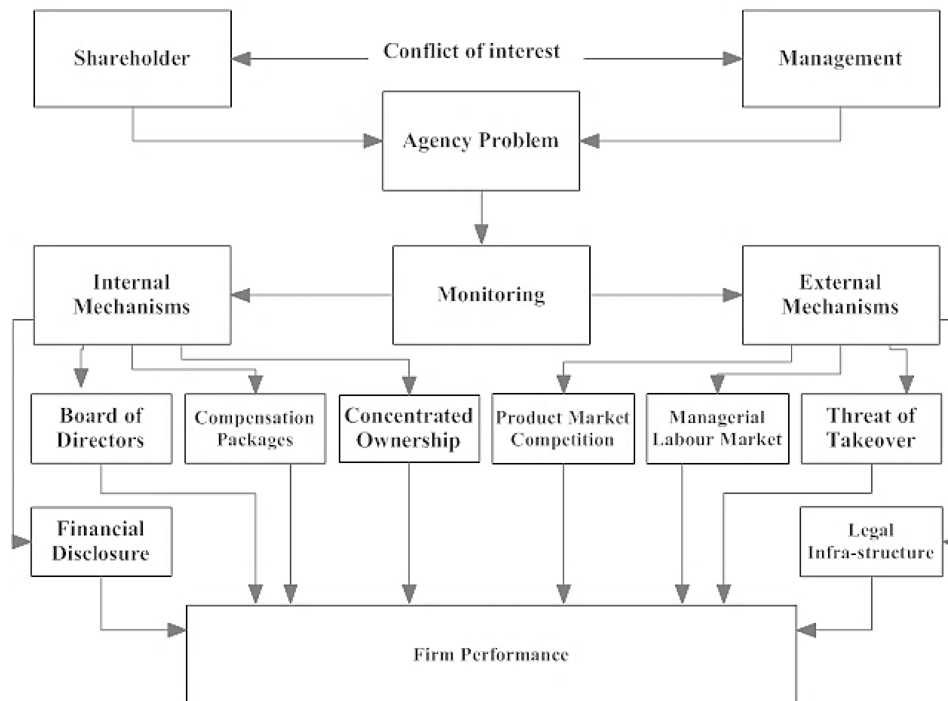

Figure 1. Corporate governance impact model on firm

Therefore, we draw up our first hypothesis:

H1: There is a positive relationship between board independence and firm performance.

Number of directors at the level of the board

Board size, which is the number of directors on a given board including its chairperson, has been and still is a research topic that has been greatly studied, together with its effect on the firm's performance in the wake of improved global corporate governance practices. Board structure has been the center of much debate, where most of the public opinion is pushing towards smaller sized boards. Even though some researchers argue that a larger board will ease the functionality of key board responsibilities such as monitoring, controlling and working towards protecting the interests of shareholders, eventually communication difficulties will arise, coordination between directors will be hindered, and ultimately the board's effectiveness and efficiency will weaken along with company performance (Moreno-Ureba & Bravo-Urquiza, 2019). (Matić & Papac, 2014) find that board size has an inverse relation with company performance. (Rahman & Bremer, 2016) examining a sample of 452 listed industrial corporations in the US measuring their Tobin's Q with respect to board size from 1984 till 1991, and proves that there is a significant inverse relation between board size and firm performance. Moreover, in the same study, (Tarando et al., 2015) finds that smaller board companies have improved values for financial ratios. A sample of 164 companies listed on Bombay Stock Exchange (BSE) was studied for six financial years from 1998 till 2003 by Garg in 2007, while taking into account Tobin's Q and other market ratios, and discovered a negative association between board size and firm performance, and also recommended that the optimal board size must be limited to six (6) members.

H2: There is a positive relationship between board size and firm performance.

Audit Committee Characteristics

The board of directors usually forms audit, nomination and remuneration committees to effectively carry out its tasks, with clear and divided responsibilities for each and every committee. Even though regulations required the formation of audit committees in the developed world, not until recently that research explored their formation, characteristics, and activities (Hussain & Loureiro, 2022). Many previous researches have examined the formation of audit committees, their relationship with the quality of the financial statement issued, their activities, their independence, and how well members are experts in the financial field (Nsour & Al-Rjoub, 2022). In this part of our study, we will focus on research investigating the audit committee's adoption and its independence.

In order to oversee the financial reporting process in listed firms, audit committees are formed. This has evolved for the audit committee to become a monitoring process that are useful in situations with high agency cost, and to help the transparent flow of information to shareholders (Adam et al., 2015). Audit committees have become a key player in the protection of shareholder interests after numerous accounting scandals such as the ones mentioned before. In some countries like Australia, the roles of the audit committee include to check the integrity and transparency of the information disclosed in the financial statements, and to make sure of the independence of the company's external auditor (Esan et al., 2022). In the United States, and as per the New York Stock Exchange (NYSE), the audit committee is also responsible for the company's risk management and hedging strategies. Therefore, the oversight of the risk management and the financial reporting processes are now the primary role of the audit committee.

The following hypotheses are set to test the above characteristics' effects of the audit committee on the performance of firms:

H3: There is a positive relationship between audit committee adoption and firm performance.

H4: There is a positive relationship between audit committee independence and firm performance.

Effectiveness (i.e. financial expertise, size and frequency of meetings) of the audit committee

When speaking about the effectiveness of the audit committee and how well the firm operates when employing an audit committee, it is worth mentioning the characteristics, i.e. the audit committee's independence, size, members' expertise and the frequency of its meetings, which all together play a significant role in how well this committee functions, and ultimately how well the performance of the firm is. According to (Sheveleva, 2022), one of the most dependable protectors of public interest is an independent, competent and audit committee. It is worth noting that in this section of the paper, we will investigate the literature relating to the audit committee's size, its respective members' financial knowledge and the frequency in which the audit committee meets. Below we find a conceptual model (**Figure 2**) of effectiveness and firm performance.

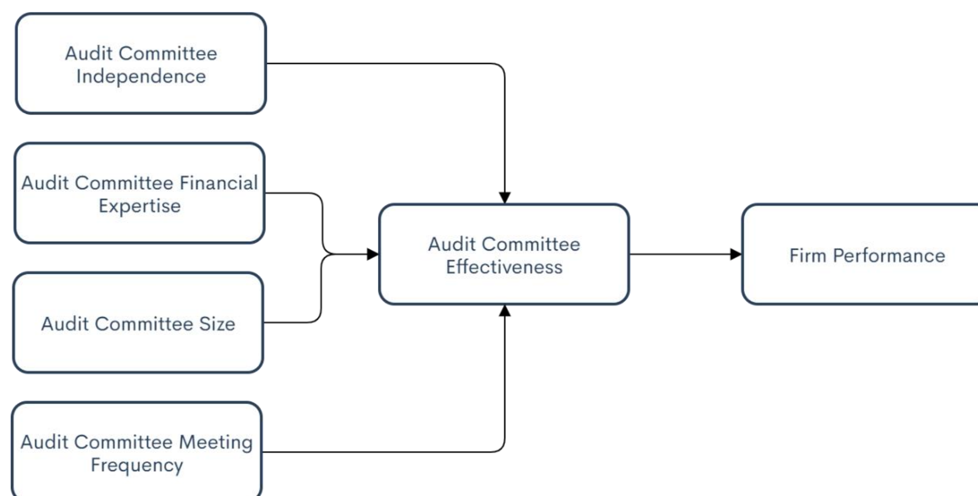

Figure 2. Audit committee effectiveness and firm performance
Source: Author

Based on (De Haes et al., 2019), the financial expertise of an audit committee improves financial reporting quality and betters its diligence, moreover, the aforementioned authors argue that the more financial experts are present on the committee, the higher the quality of earnings and the less likely the financial statements will be restated. The same findings were documented by (de Villiers & Dimes, 2021) in which the possibility of financial restatement decreases in the event where the members of the audit committee are financially knowledgeable. Research done by (Salehi et al., 2020) shows that directors in audit committees with accounting experience and the quality of financial reporting are positively related; furthermore, the author also provides evidence that this correlation is greater when a financial expert is independent of the firm and does not hold numerous directorships.

The research of (Istrefi, 2020) shows that when having an audit committee including at least one member who is a financial expert, there is a decrease in earnings management. By the same token, the link between the number of financially knowledgeable members on the audit committee and earnings management is inverted. Diversely, (Salehi et al., 2020) argues that directors who have high levels of financial expertise tend to be risk-takers, more hostile, and may operate contrary to shareholders' interests; on the other hand, the author provides evidence that an experienced audit committee will more likely to take sides with external auditors if the latter find an accounting misstatement or issue concerning measurement. However, and according to the same author, it is argued that the time needed for the discussions of the audit committee with management and the auditor will be reduced when audit committee members have proper technical competencies, which in turn makes an audit committee more effective. Based on the above, we formulate the following hypotheses:

H5: There is a positive relationship between audit committee expertise and firm performance.

H6: There is a positive relationship between audit committee size and firm performance.

H7: There is a positive relationship between audit committee meeting frequency and firm performance.

Figure 3 below represents a summary on above mentioned different hypotheses on the effects of the characteristics of the board of directors and audit committee on firm performance.

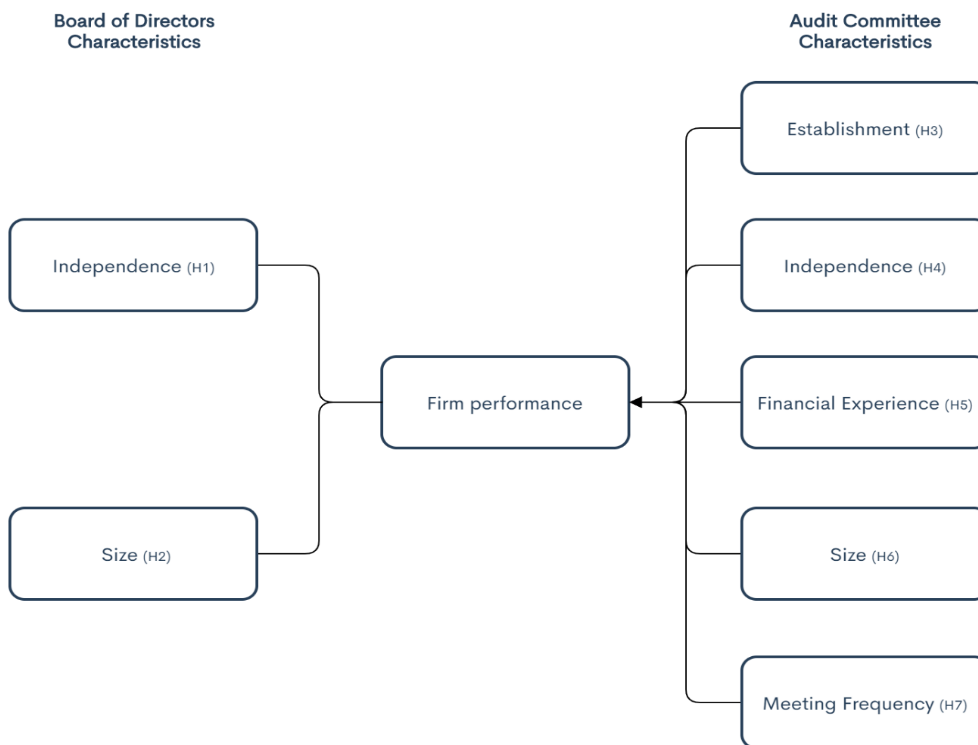

Figure 3. Board and audit committee characteristics link to firm performance
Source: Author

RESEARCH METHODOLOGY

In order to measure the above mentioned hypotheses, we distributed a questionnaire specifically outlined to measure different firms' performances (the dependent variable) in various sectors over a period of three consecutive years (i.e. from the year 2017 till 2019), with regards to the different characteristics of boards of directors, mainly size and independence, and characteristics of audit committees (independent variables) whereby it is identified as the implementation of an audit committee, its independence, financial expertise, size, and meeting frequency. Furthermore, we try to associate these characteristics stated above with the companies' firm performance.

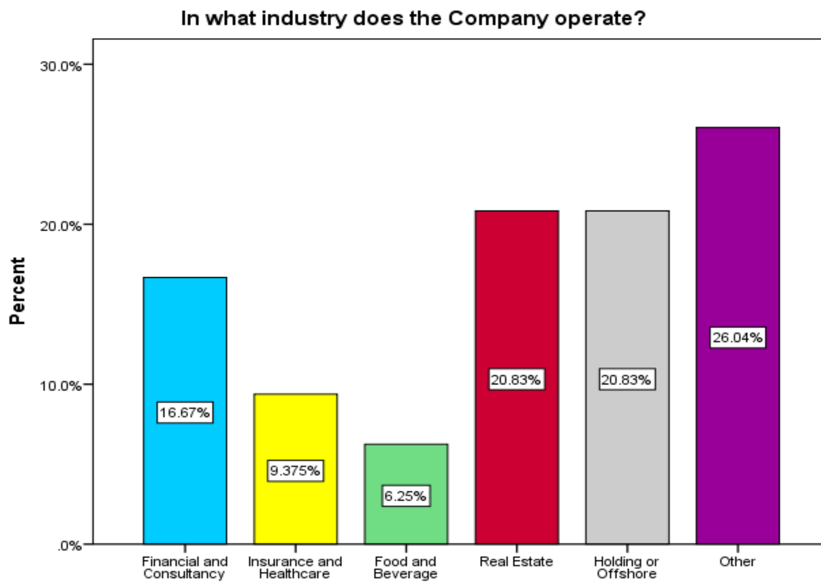

Figure 4. Sample percentage per industry

It is worth mentioning that the "Other" class of industry includes shipping, travel and tourism, security services, marketing and advertising, hotels and hospitality services, etc.

Measurement techniques and methods

The questionnaire was formulated to measure a firm's performance by using its respective net income for the year, together with its return on assets (ROA) for the three consecutive years ranging from 2017 till 2019. The first seven (7) questions of the questionnaire (refer to appendix A) are used to determine the correspondent's brief information, more specifically their gender, age, and position in the company, and to establish an idea of the company in which they work in, more precisely the industry in which the company operates, its age, the number of employees that it employs to have brief knowledge about its size, and if the company is considered a family business.

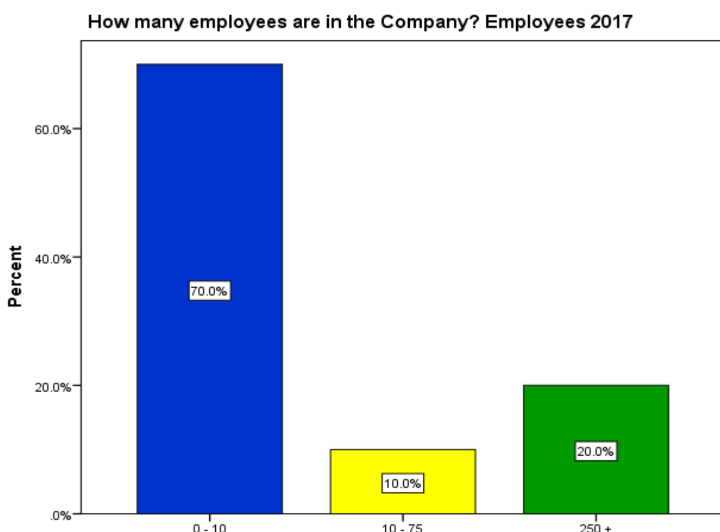

Figure 5. Employees during 2017

It is worth noting that the companies' employee number have not changed for the three consecutive years, giving us a clearer idea on the company's size.

The second two part of the questionnaire consisting of two (2) questions measures the company's income or loss for the three years, together with its return on assets. We chose to measure the firm's performance not only by using its respective statement of profit and loss, but also using the company's return on assets (ROA), to give us a clearer idea on

its economic outcome. If we only take the company's income statement, and disregard its size of its assets, we cannot determine whether this income or loss is material to the company to further pinpoint its performance. To be clearer on the aforementioned idea, let us take for example a company which has more than US$ 10,000 of income for a given year, but has US$ 10 million dollars' worth of assets. Therefore, we cannot conclude, if we exclude the return on assets factor that this company has fared well during the year. Thus, it is crucial that we include the ROA ratio in our questionnaire to further strengthen our results.

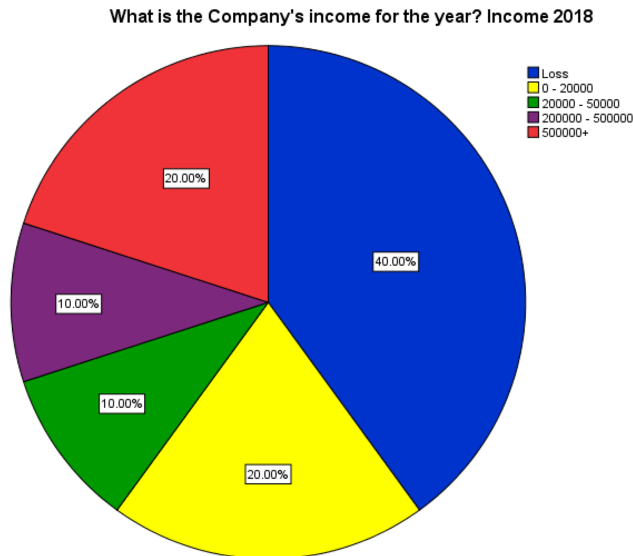

Figure 6. Company income for the year 2018 pie chart

Table 1. What is the company's return on assets (ROA)? Return on Assets 2018

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Negative	4	40.0	40.0	40.0
	0 - 10%	2	20.0	20.0	60.0
	10 - 25%	1	10.0	10.0	70.0
	More than 25%	3	30.0	30.0	100.0
	Total	10	100.0	100.0	

The third part of the questionnaire is composed of four (4) questions in which we look into the composition of the entity's board of directors, in which the correspondent shows us the size of the board of directors, and how many members are independent. This will help us study our first and second hypotheses (H1 and H2) mentioned above in the literature.

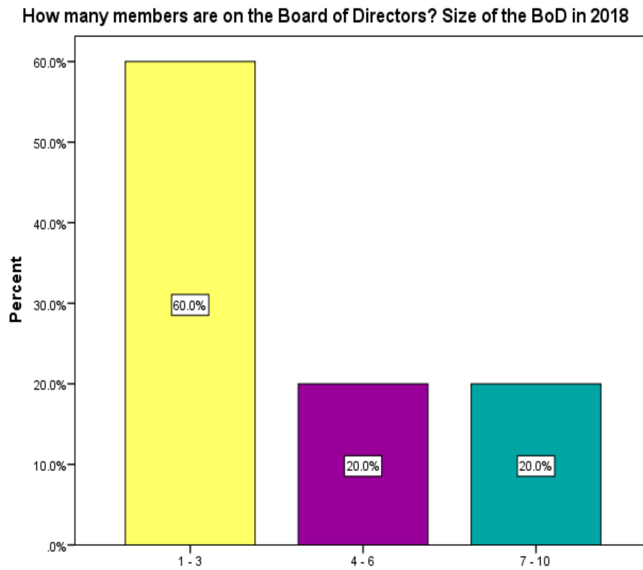

Figure 7. Board of Directors size percentage during 2018

The fourth section consists of five (5) questions where we try to look deeper into the audit committee of the company, more precisely whether the company employs an audit committee, its size, how many members have financial expertise, how many are independent, and how many times does the audit committee meet per year. These questions will assist us in examining our 5 hypotheses (H3 to H7) in the literature.

The fifth part of our questionnaire were questions with personal preferences. The answers to these questions do not affect our results in any way whatsoever. These questions show whether the correspondent has any personal opinion on the audit committee, board of directors and the Code of Commerce. Set out below is a table showing the respondents' preferences and opinions on the Code of Commerce.

Data Samples and Statistics

The sample selected in our study was comprised of different businesses operating in different sectors, ranging from the financial sector to the food and beverage sector. In order to provide a more comprehensive analysis to our study, we have included non-listed and listed firms as part of our sample. Moreover, to further give credibility to our results, the financial information of listed companies that are available to the public have been used in our research. The questionnaire was sent to 175 correspondents, out of which 86 samples were deemed to be admissible, whereby these 86 responses were used as our sample of study. It is worth mentioning also that not only questionnaires were used, but also secondary data from the financial statements of only 10 listed companies to draw out their income and return assets ratios, with the audit committee and board of directors compositions. All the samples have been kept anonymous for privacy reasons. However, some companies refused to disclose any financial information even though we assured them that all the information is completely confidential and will not be disclosed to the public.

In order to carry out our statistical analysis, we have concluded that the best way to show a relation between the independent and dependent variables (i.e. different characteristics of the BoD and AC, and the business's performance), is to include a Crosstabulation, the Pearson's Chi-Square tests, and symmetric measures in which we use the Phi and Cramer's V tests. These aforementioned tests allow us to verify our above hypotheses, and show us whether there is a link between the different independent and dependent variables. We have used the IBM's SPSS software in order to provide the analysis of the statistics.

ANALYSIS AND DISCUSSION

The testing of our results tackling our previously stated hypotheses that have been obtained from the questionnaire set out, and carried out on the SPSS software will try to show us whether there is any correlation between the attributes of the board of directors and the characteristics of the audit committee, with the performance of different firms. In the hypotheses from H1 to H7 mentioned in the literature review, different characteristics of BoDs and ACs may influence

the company's financial performance. On the other hand, it is possible that many other factors have influenced the income and return on assets of the businesses included in our sample, and our factors included in the hypotheses are not solely responsible for a given business's functioning. These corporate government practices, which are the company's board attributes and efficiency of the audit committee only, will be used and covered in this study. The results will be presented and analysed further below.

In order to verify whether there is any link or correlation between these above stated factors, we used the Chi-Square test of association which shows us whether there is any link between the variables, together with their levels of significance of the correlation. Also, we have used the Cross-tabulation, and the Cramer V's test to show the strength of the association between the independent and dependent variables, where the strength of the association is based on the following: 0 to 0.1 = little to no association; 0.1 to 0.3 = low association; 0.3 to 0.5 = moderate association; and >0.5 = high association. Moreover, we have displayed beneath each test a clustered bar chart to visually assist us in reading the results.

Board of Directors and Firm Performance

This part tackles the question in which we asked whether the board of directors' independence and size has any effect on the company's return on assets and income for the year. These questions were raised in hypotheses H1: There is a positive relationship between board independence and firm performance; and H2: There is a positive relationship between board size and firm performance. In order to determine the company's financial performance, and as mentioned before, we have used the company's income and return on assets. Furthermore, we decided to use three consecutive years from 2017 to 2019 to give more reliability to our results.

Board Independence and Firm Performance

Table 2. Company's income for year

*How many members of the BoD are independent in 2017? * What is the Company's income for the year? Income 2017 Crosstabulation*

			What is the Company's income for the year? Income 2017						
			Loss	0 - 20000	20000 - 50000	50000 - 200000	200000 - 500000	500000+	Total
How many members of the BoD are independent in 2017?	0	Count	53	8	5	0	1	5	72
		Expected Count	39.8	9.0	4.5	3.0	2.3	13.5	72.0
		% within How many members of the BoD are independent in 2017?	73.6%	11.1%	6.9%	0.0%	1.4%	6.9%	100.0%
	1	Count	0	1	1	3	2	1	8
		Expected Count	4.4	1.0	.5	.3	.3	1.5	8.0
		% within How many members of the BoD are independent in 2017?	0.0%	12.5%	12.5%	37.5%	25.0%	12.5%	100.0%
	2	Count	0	2	0	1	0	1	4
		Expected Count	2.2	.5	.3	.2	.1	.8	4.0
		% within How many members of the BoD are independent in 2017?	0.0%	50.0%	0.0%	25.0%	0.0%	25.0%	100.0%
	3	Count	0	1	0	0	0	1	2
		Expected Count	1.1	.3	.1	.1	.1	.4	2.0
		% within How many members of the BoD are independent in 2017?	0.0%	50.0%	0.0%	0.0%	0.0%	50.0%	100.0%
	4+	Count	0	0	0	0	0	10	10
		Expected Count	5.5	1.3	.6	.4	.3	1.9	10.0
		% within How many members of the BoD are independent in 2017?	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%	100.0%
Total		Count	53	12	6	4	3	18	96
		Expected Count	53.0	12.0	6.0	4.0	3.0	18.0	96.0
		% within How many members of the BoD are independent in 2017?	55.2%	12.5%	6.3%	4.2%	3.1%	18.8%	100.0%

73.6 % of the BoD that doesn't have any independent members in 2017 have reported a loss for the year 2017, while only 6.9% have reported an income above US$ 500,000.

Chi-Square Tests

	Value	df	Asymptotic Significance (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)	Point Probability
Pearson Chi-Square	111.630[a]	20	.000	.[b]		
Likelihood Ratio	88.103	20	.000	.000		
Fisher's Exact Test	82.131			.000		
Linear-by-Linear Association	47.719[c]	1	.000	.000	.000	.000
N of Valid Cases	96					

a. 26 cells (86.7%) have expected count less than 5. The minimum expected count is .06.

b. Cannot be computed because there is insufficient memory.

c. The standardized statistic is 6.908.

The Chi-square test of association gives clear evidence that independence at the level of the board is related to income in 2017, $\chi2(20)=111.63$ and $p=0.000<\alpha=0.05$.

Symmetric Measures

		Value	Approximate Significance	Exact Significance
Nominal by Nominal	Phi	1.078	.000	.[c]
	Cramer's V	.539	.000	.[c]
N of Valid Cases		96		

c. Cannot be computed because there is insufficient memory.

The Cramer's V test shows that there is a high association with Cramer's V equal to 0.539.

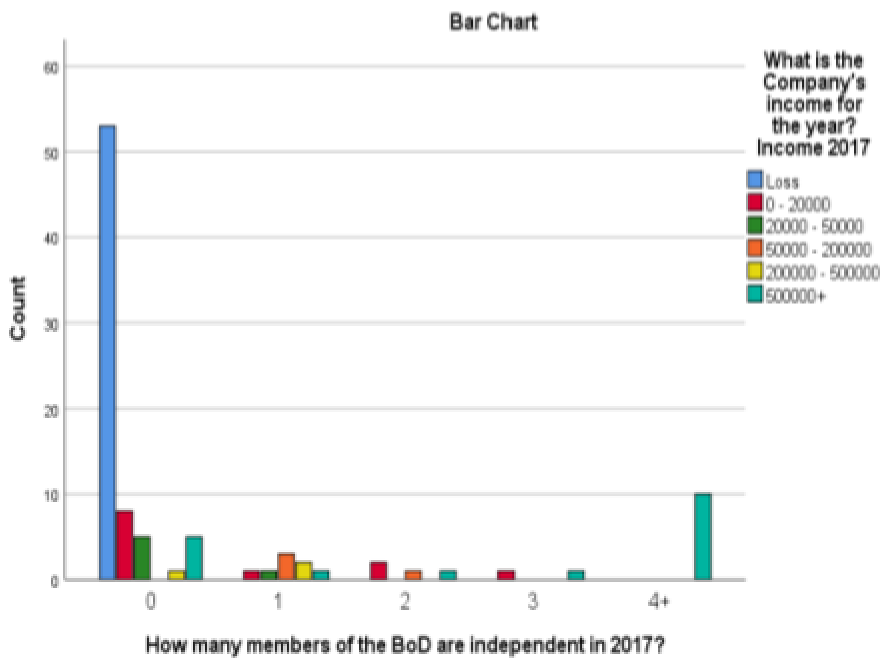

Figure 8. Company Income 2017 vs. Independent BoD

*How many members of the BoD are independent in 2018? * What is the Company's income for the year? Income 2018 Crosstabulation*

			What is the Company's income for the year? Income 2018						
			Loss	0 - 20000	20000 - 50000	50000 - 200000	200000 - 500000	500000+	Total
How many members of the BoD are independent in 2018?	0	Count	55	3	7	2	2	3	72
		Expected Count	42.0	5.3	6.0	3.8	3.0	12.0	72.0
		% within How many members of the BoD are independent in 2018?	76.4%	4.2%	9.7%	2.8%	2.8%	4.2%	100.0%
	1	Count	0	1	1	2	2	2	8
		Expected Count	4.7	.6	.7	.4	.3	1.3	8.0
		% within How many members of the BoD are independent in 2018?	0.0%	12.5%	12.5%	25.0%	25.0%	25.0%	100.0%
	2	Count	0	2	0	1	0	1	4
		Expected Count	2.3	.3	.3	.2	.2	.7	4.0
		% within How many members of the BoD are independent in 2018?	0.0%	50.0%	0.0%	25.0%	0.0%	25.0%	100.0%
	3	Count	0	1	0	0	0	1	2
		Expected Count	1.2	.1	.2	.1	.1	.3	2.0
		% within How many members of the BoD are independent in 2018?	0.0%	50.0%	0.0%	0.0%	0.0%	50.0%	100.0%
	4+	Count	1	0	0	0	0	9	10
		Expected Count	5.8	.7	.8	.5	.4	1.7	10.0
		% within How many members of the BoD are independent in 2018?	10.0%	0.0%	0.0%	0.0%	0.0%	90.0%	100.0%
Total		Count	56	7	8	5	4	16	96
		Expected Count	56.0	7.0	8.0	5.0	4.0	16.0	96.0
		% within How many members of the BoD are independent in 2018?	58.3%	7.3%	8.3%	5.2%	4.2%	16.7%	100.0%

76.4 % of the BoD that doesn't have any independent members have reported a loss for the year 2018, while only while 4.2% have reported an income above US$ 500,000.

Chi-Square Tests

	Value	df	Asymptotic Significance (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)	Point Probability
Pearson Chi-Square	95.512[a]	20	.000	.[b]		
Likelihood Ratio	77.487	20	.000	.000		
Fisher's Exact Test	74.837			.000		
Linear-by-Linear Association	40.803[c]	1	.000	.000	.000	.000
N of Valid Cases	96					

a. 25 cells (83.3%) have expected count less than 5. The minimum expected count is .08.

b. Cannot be computed because there is insufficient memory.

c. The standardized statistic is 6.388.

The Chi-square test of association gives clear evidence that independence at the level of the board is related to income in 2018, $\chi 2(20)=95.512$ and $p=0.000<\alpha=0.05$.

Symmetric Measures

		Value	Approximate Significance	Exact Significance
Nominal by Nominal	Phi	.997	.000	.[c]
	Cramer's V	.499	.000	.[c]
N of Valid Cases		96		

c. Cannot be computed because there is insufficient memory.

The Cramer’s V test shows that there is a moderate association with Cramer’s V equal to 0.499.

Based on the above results, we conclude that H2: There is a positive relationship between board size and firm performance, is accepted.

Audit Committee and Firm Performance

In this part of our study, we analyse our findings with regards to the effect of the characteristics of the audit committee on the companies’ performances used in our sample. First of all, a company is not obliged to form an audit committee, especially if it is not listed. Therefore, we have taken into account the possibility that the establishment of an audit committee may have an effect on the business performance of a given entity. Thus, we have formulated our third hypothesis H3: There is a positive relationship between audit committee adoption and firm performance. Furthermore, we hypothesised that the members’ independence may affect the company’s performance, as stated in H4: There is a positive relationship between audit committee independence and firm performance.

Adding to the effectiveness of the audit committee, we could not but include the size and the meeting frequency to our study. The size of the audit committee helps in determining whether the AC functions and communicates properly as stated in literature, together with its meeting frequency in order for its members to address the company’s problems. These points are addressed in H6 and H7 as follows:

H6: There is a positive relationship between audit committee size and firm performance.

H7: There is a positive relationship between audit committee meeting frequency and firm performance.

To be consistent in our research, we also have taken into account the income and return on assets as dependent variables to measure whether there is a relationship between the above characteristics of the effectiveness of the audit committee with the entity’s performance.

Audit Committee Adoption and Firm Performance

*Does the Company employ an Audit Committee? * What is the Company's income for the year? Income 2017 Crosstabulation*

			What is the Company's income for the year? Income 2017						
			Loss	0 - 20000	20000 - 50000	50000 - 200000	200000 - 500000	500000+	Total
Does the Company employ an Audit Committee?	Yes	Count	0	0	0	0	0	12	12
		Expected Count	6.6	1.5	.8	.5	.4	2.3	12.0
		% within Does the Company employ an Audit Committee?	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%	100.0%
	No	Count	53	12	6	4	3	6	84
		Expected Count	46.4	10.5	5.3	3.5	2.6	15.8	84.0
		% within Does the Company employ an Audit Committee?	63.1%	14.3%	7.1%	4.8%	3.6%	7.1%	100.0%
Total		Count	53	12	6	4	3	18	96
		Expected Count	53.0	12.0	6.0	4.0	3.0	18.0	96.0
		% within Does the Company employ an Audit Committee?	55.2%	12.5%	6.3%	4.2%	3.1%	18.8%	100.0%

63.1% of companies that did not employ an audit committee have reported a loss for the year 2017, while 14.3% have reported an income between US$ 0 – 20,000. Moreover, 100% of companies having employed audit an committee have reported an income above US$ 500,000 for the year 2017.

Chi-Square Tests

	Value	df	Asymptotic Significance (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)	Point Probability
Pearson Chi-Square	59.429[a]	5	.000	.000		
Likelihood Ratio	49.425	5	.000	.000		
Fisher's Exact Test	41.296			.000		
Linear-by-Linear Association	44.494[b]	1	.000	.000	.000	.000
N of Valid Cases	96					

a. 7 cells (58.3%) have expected count less than 5. The minimum expected count is .38.

b. The standardized statistic is -6.670.

The Chi-square test of association gives clear evidence that the adoption of an audit committee is related to income for the year 2017, $\chi2(5)=59.429$ and $p=0.000<\alpha=0.05$.

Based on the above results, we conclude that H7: There is a positive relationship between audit committee meeting frequency and firm performance, is rejected.

DISCUSSION, LIMITATIONS AND FURTHER RESEARCH

With regards to the above analysis on the collected data, the results of the studied sample concerning the board of directors' characteristics show that the size and independence of the board of directors in a given company, as hypothesised in H1 and H2, has a significant effect and are directly related to income and return on assets. Therefore, and based on our studies on the 86 companies that have responded to our questionnaire plus the 10 listed companies that we have drawn out their boards characteristics from their financial statements publically available, the bigger and more independent a board of director is, the higher the business's return on assets and income.

As for the third hypothesis which poses the question whether the implementation of an audit committee in a given company has any effect on its respective income and return on assets, we can say that our results have shown that an audit committee has a significant relation with income and ROA.

Coming to our hypotheses which tackle the different properties of the audit committees' effectiveness which are, the size, independence and financial expertise of their members, and their respective meeting frequencies, it is worth noting that only out of a total 96 companies taken into consideration in our study, we have only compared 12 companies that have employed audit committees, and the reason for that is the primary limitation encountered during our research is the lack of readily available financial and corporate governance information. It is worth noting, and as mentioned before, that the law does not force companies to disclose their financial information. Therefore, we could only provide results based on the 12 companies that have disclosed their corporate governance and audit committee characteristics during our data collection. Building on the aforementioned information, our results have concluded that the size and meeting frequency of the audit committee, and the financial experience and independence of the audit committee members do not have a significant effect on the return on assets and income of a company. However, we do note that an audit committee itself has a positive outcome on the performance of the entity as proven in our study of H3. This raises the problem that only 12 businesses taken into consideration for the study of H4 to H7, cannot be conclusive and must be re-evaluated thoroughly by enlarging the sample. Adding to that, we could not ignore the economic downturn that has been occurring for the past 4 to 5 years, so we have good speculation that this may have affected our research's results. Moreover, we have only taken into perspective the income and return on assets to determine the financial performance of companies, which puts limitations on the study due to the fact many other factors can be taken into consideration to better show a company's financial performance.

Our recommendation for future research taking on this topic of audit committee and board of directors' attributes effects on firm performance, is that the sample should be taken in a time when the country's GDP is on the rise and its economy is improving. Even though the literature review discussed in this paper sheds light on the topic chosen in this paper, our sample does not give us a definite answer to our hypotheses raised, especially the hypotheses from H4 to H7 which investigate the effectiveness of the audit committee. Ending our recommendation, we suggest that more indicators of business performance be taken into consideration, such as cash flow from operating activities, Q ratios, working capital and book value per share. This will give future research a better insight on true financial performance of businesses studied.

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