THE IMPACT OF AUDIT COMMITTEE FINANCIAL EXPERTISE ON CORPORATE FINANCIAL DECISIONS

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Abstract

Audit committee (AC) financial experts is considered one of the important corporate governance mechanisms due to their vital role in overseeing companies' financial reporting procedures and enhancing corporate financial decisions. Regulators and policymakers require Omani firms to have at least one director with financial expertise sitting on ACs. Therefore, we aim to investigate the effect of AC financial expertise on corporate financial decisions (capital structure, dividend payment and cash holdings). We use a data set of all Omani financial institutions (36 firms) listed on the Muscat Stock Exchange (MSX) over the period from 2014 to 2019, consisting of 216 firm-year observations. The paper contributes to the growing body of the literature by being the first study to examine the impact of AC financial expertise on financial decisions. The study also contributes to the literature by integrating multiple theories: agency, resource dependence and signalling, to enlighten the effect of the unique power of financial expertise on making financial decisions. We find that AC members with financial expertise are positively related to the level of cash holdings, leverage and dividend payment in financial companies. The findings provide empirical evidence to regulators to encourage companies to exceedingly appoint financial experts as AC members due to their unique resources, which improve their monitoring role and constraining management opportunistic behaviour.

Keywords: Audit Committee, Financial Expertise, Capital Structure, Dividend Policy, Cash Holdings, Oman

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1. INTRODUCTION

Efficient corporate financial decisions are the main responsibility of the boards of directors (BODs) (Trinh, Elnahass, Salama, & Izzeldin, 2020). Many regulations and legislations have been imposed on BODs to assist them in their role of making financial decisions. Therefore, the corporate governance (CG) code in Oman has introduced several strict provisions for the audit committee (AC) directors to be more effective in providing high-quality financial decisions to the board. One of the most important

characteristics is to have at least one director on the AC with financial expertise, to enhance the effectiveness of the board's financial decisions (Al Lawati, Hussainey, & Sagitova, 2021). Therefore, this paper aims to examine the impact of AC financial expertise on financial decisions.

Although AC members play two important roles: monitoring and advisory roles, a dearth of studies has been found on the advisory role of the AC directors (Qiao, Chen, & Hung, 2018). With their unique expertise, these directors would be able to offer ultimate advice on "expertise-related policies" and develop a more strong and solid "internal control system and risk management framework" (Sultana, 2015). This paper contributes to the literature of AC financial expertise and concentrates on three financial decisions: dividend pay-out, cash holdings, and capital structure.

Starting with the dividend policy, it is considered one of the important financial decisions that AC could help the board in deciding on it. Possessing financial expertise, these directors could exercise their advisory role in making optimal decisions. Due to the voluntary nature of the dividend policy in Omani financial institutions (CMA, 2015), the board faces dilemmas in whether to pay or withhold the payment of dividends to their shareholders (Elmagrhi et al., 2017). On the one hand, paying an excessive amount of a company's profit to shareholders as dividends will reduce a company's growth opportunity. On the other hand, leaving excessive free cash under management's control will create agency problems between managers and shareholders. Hence, we argue that AC directors with financial expertise could enhance the counterbalance between distributing the profit to shareholders and holdings some free cash in the company to invest for potential future growth.

Moving to cash holdings, cash is considered an important component of a company's current assets, especially when accessing the capital market is constrained and when the demand for borrowing is high. Board directors with AC members need to collaborate to make ultimate decisions on whether to invest the full amount of the excessive cash on a profitable investment or hold some cash back to the company for future investment when external financing cost is high or unavailable (Ranajee & Pathak, 2019). The literature states that corporate cash holdings affect firm value as it is subject to the agency problem (Jensen, 1986). Managers could easily spend excessive cash in damaging projects to increase their benefits, building an empire reputation, at the cost of shareholders. Shareholders are aware of the agency problems created by the existence of free cash, hence, they require additional monitoring mechanisms to protect their wealth and interests. The existence of AC directors with financial expertise would enhance the decisions taken by the board and also reduce the agency problems.

Regarding corporate capital structure, it is a very important sign of the effectiveness of the CG quality in the company (Detthamrong, Chancharat, & Vithessonthi, 2017). Detthamrong et al. (2017) state that if a company is too leveraged (due to weak CG), a financial crisis could occur. Therefore, companies need to have financial expertise on AC to make the "optimal composition of debt in their capital structure in order to maximize the benefits against the costs of future financial distress, which increases with the use of debt financing" (Detthamrong et al., 2017, p. 690). Thus, our paper addresses the following research question:

RQ: Do AC directors with financial expertise have an impact on corporate financial decisions in Omani financial institutions?

Financial decisions are very important corporate decisions made by the BODs and they are affected by information asymmetry between managers and shareholders, which could be significantly improved by the existence of financial/ accounting experts. This article offers several new contributions to the existing literature. First, we respond to a recent call by Al-Hadi, Eulaiwi, Al-Yahyaee, Duong, and Taylor (2020) to examine the impact of AC expertise on corporate financial decisions in Gulf Cooperation Council (GCC). Hence, we provide empirical evidence on the impact of AC financial expertise on corporate financial decisions in Omani financial institutions. By investigating this, we depart from the traditional studies (e.g., Rao, Al-Yahyaee, & Syed, 2007; Fernandez, Kumar, & Mansour, 2013; Al Ani & Al Amri, 2015; Singh, 2016; Al-Najjar & Clark, 2017) which examine the impact of company characteristics, such as profitability, firm size, and liquidity on financial decisions. We also contribute to the literature by focusing on the other angle of the AC role, the advisory role, which is a "distinctive dimension". Second, we integrate agency, signalling, and resource dependence theories to explain the influence of the unique power of financial expertise on making financial decisions. Third, we contribute to the literature by focusing on the financial institutions for a unique sample period of 2014–2019 covering the revised version of CG code in Oman. In addition, we hand-collect a unique data on AC financial expertise for Omani financial institutions, from companies annual reports, to study their impact on corporate financial decisions.

The remainder of the paper is structured as follows. Section 2 reviews the literature and develops the hypotheses. Section 3 presents the research design. Section 4 discusses the empirical results, whilst Section 5 presents the additional analysis. Section 6 concludes the study.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

In this section, we provide a brief survey of related studies on CG and corporate financial decisions. We then develop theoretical arguments for the relationships between AC financial expertise and dividends, financial leverage, and cash holdings. Consequently, we develop our research hypotheses.

2.1. The effects of AC financial expertise on financial leverage

As CG is a framework aiming to enhance transparency and accountability to shareholders, it is used to reduce the agency problems that existed due to the separation of control between agents and the principal (Feng, Hassan, & Elamer, 2020). Chang, Chou, and Huang (2014), Detthamrong et al. (2017), and Adusei and Obeng (2019) state that the level of

debt in companies is affected by the quality of CG. The literature finds that companies with weak CG are more leveraged than those with strong CG (Jiraporn, Kim, Kim, & Kitsabunnarat, 2012). Based on agency theory, high-quality CG can decrease the level of debt and in turn, reduce the conflict of interest between managers and shareholders. CG provides regulations and provisions to resolve disputes between agents and the principal and to assure the shareholders that the agents can manage funds to maximise firm value.

One of the most important mechanisms to make a good CG is having a strong AC (Kusnadi, Leong, Suwardy, & Wang, 2016). "It is a sub-committee of the board of directors acting independently in the preparation of financial reports and accurate disclosure in compliant with reporting standards with internal control system and strong enough audit standards" (Detthamrong et al., 2017, p. 692). AC assists the board in choosing the appropriate external auditor, overseeing management, and enhancing the reliability in financial reporting quality (FRQ) (Sultana & Van der Zahn, 2015). There is growing research that AC financial expertise can enhance the effectiveness of the BODs. Based on resource dependence theory, AC financial expertise is likely to support corporate managers by using their unique skills and knowledge on financial, accounting, and supervisory experience (Kusnadi et al., 2016). They will provide all the necessary information to firms, which will allow them "to have better access to external sources of financing if needed" (Khatib, Abdullah, Hendrawaty, & Yahaya, 2020). The impact of the financial expertise of AC on financial leverage could be positive or negative. On the one hand, financial experts could enable the company to increase its leverage due to better, reliable, and high-quality information provided to the markets. Based on a signalling theory, companies that issue more debt send a positive signal about their future outlooks (Rao et al., 2007). Rao et al. (2007) and Vijayakumaran and Vijayakumaran (2019) state that these firms, by issuing more debts, signal to the market their confidence in repaying their obligations also signal to the stock market their willingness to be monitored by lenders. This will increase their future investment opportunities and growth prospects. On the other hand, AC financial expertise could reduce the level of leverage to avoid potential shortcomings, losing control or reputation (Khatib et al., 2020). Also, AC financial expertise provides additional supervision on the management team, which could "lead managers to adopt lower leverage to avoid pressures related to commitments to surrender large amounts of cash" (Feng et al., 2020, p. 763).

Based on the earlier arguments and agency, resource dependence, and signalling theories, we formulate the following hypothesis:

H1: AC financial expertise has an impact on financial leverage.

2.2. The effects of AC financial expertise on dividend policy

AC financial expertise plays a major role in making optimal financial decisions such as dividend payout ratio due to their professional expertise and knowledge from past working experience in dividend payout capacity, tax planning, and corporate financial conditions, which help the board in advising and monitoring management team (Qiao et al., 2018). In a situation where a company is undervalued and information asymmetry between managers and shareholders is high, managers could signal this information by increasing the dividend payment level, based on signalling theory (Qiao et al., 2018; Baker, Dewasiri, Premaratne, & Koralalage, 2020). Therefore, AC financial expertise plays a major role in alleviating information asymmetry between the management and shareholders, leading to cost efficiency and improves a company's competitive advantages and financial performance (Shamsabadi, Tebourbi, Nourani, & Min, in press). They state that this increase in firm's performance will lead to a large dividend payout to shareholders, which ultimately achieving the CG goal, which is the maximisation of shareholders' wealth.

On the one hand, based on agency theory, one method of financial expertise to reduce information asymmetry is to use accounting conservatism to monitor and control managerial opportunistic behaviour (Sultana, 2015). This will lead to strengthening the internal monitoring responsibility exercised by them, which in turn improves FRQ. Using a strong conservatism means restricting the dividend payout to avoid default in debt payment (Watts, 2003). In this situation, financial expertise with their unique resources and high-quality experience could act as a substitute for paying the dividend, motivating lower demand for dividends in the firms. Krishnan and Visvanathan (2008) find that accounting experts enhance accounting conservatism through their specific knowledge of accounting matters. Previous studies find that strong CG reduces the level of dividend payment (Jiraporn & Ning, 2006; Jo & Pan, 2009).

On the other hand, based on signalling theory, AC financial expertise tends to encourage paying a high level of dividends to better signal corporate future earnings sustainability (Qiao et al., 2018). "The dividend signaling theory is based on the belief that investors prefer stable dividends over the years and firms are reluctant to cut dividends" (Al-Yahyaee, Pham, & Walter, 2010, p. 906). Also, in situations where information asymmetry is high between managers and shareholders, the formers try to seek strategic advice from AC financial experts to adjust dividend policies through their advisory roles to signal good CG to the markets. The literature finds that larger dividend pay-out is associated with strong CG (Jiraporn, Kim, & Kim, 2011; Elmagrhi et al., 2017; Shamsabadi et al., in press; Baker et al., 2020).

Due to the inconclusive arguments about the impact of AC financial expertise on dividend policy and based on agency and signalling theories, we propose the following hypothesis:

H2: AC financial expertise has an impact on dividend payment levels.

2.3. The effects of AC financial expertise on cash holdings

There are two opposite arguments about the impact of AC members with financial expertise on the value of cash holdings. On the one hand, AC financial expertise could affect positively the level of cash

holdings by mitigating the agency problems between managers and shareholders and through their effective monitoring and controlling of management actions in operating or investment activities by using their unique accounting and financial experience (Choi, Han, Jung, & Song, 2020). Based on resource dependence theory, AC with financial expertise extracts their human capital resources from other directorships, which lead to an increase in their effectiveness in overseeing FRQ and the management team (Pfeffer, 1972). Literature provides evidence that AC members with financial expertise enhance the monitoring role of AC, which lead to enhance FRQ (such as reducing the likelihood of asset misappropriation, improving audit quality and lowering earning management) (Xie, Davidson, & DaDalt, 2003; Zhang, Zhou, & Zhou, 2007; Hoitash & Hoitash, 2009; Dhaliwal, Naiker, & Navissi, 2010; Badolato, Donelson, & Ege, 2014; Cohen, Hoitash, Krishnamoorthy, & Wright, 2014; Zalata, Tauringana, & Tingbani, 2018; Lisic, Myers, Seidel, & Zhou, 2019; Bala, Amran, & Shaari, 2019). Al-Hadi et al. (2020) find that members with professional expertise on boards are enhancing the level of cash holdings in GCC companies.

On the other hand, AC financial expertise could have a strong connection with management through business and industry relationships, which might reduce the motivation to monitor the management and financial reporting processes effectively (Dhaliwal et al., 2010). This will result in a low level of cash holdings in the company because these members could "provoke the free cash flow problem" (Choi et al., 2020). Huang, Ma, and Lan (2014) find that firms with high information asymmetry characterised by a low level of cash holdings. In addition, Al-Najjar and Clark (2017) find an insignificant impact of independent directors on cash holdings in the Middle East and North Africa (MENA) region due to the networking and connection procedures in hiring directors instead of considering their expertise and experience.

Based on the agency and resource dependence theories and the above-mentioned arguments, we propose the following hypothesis:

H3: AC financial expertise has an impact on cash holdings.

3. RESEARCH DESIGN

3.1. Sample selection

Our initial sample comprises Omani financial institutions listed on the Muscat Stock Exchange (MSX) from 2014 to 2019. We hand-collect information about AC members from companies annual reports downloaded from the MSX website. We obtain financial data from the Bloomberg database. The final sample consists of 216 firm-year observations. This period is selected as it includes the period of the introduction of the revised version of the Omani CG Code in 2016. The revised version gives the importance of including financial/ accounting expertise within ACs. The sampled population contain 8 banks, 10 insurance companies, 5 financial services, 12 investment firms, and 1 real estate, which totaled 36 companies over a 6-years period. The financial sector accounts for 67% of the total MSX market (Muscat Clearing & Depository, 2021). Table 1 shows the distribution of the financial sub-sectors within the MSX market.

Table 1. Distribution of the financial sub-sectors

Sub-sector	*Percentage (%)*
Banking	53.05%
Financial services	5.21%
Insurance	2.66%
Investment	6.05%
Real estate	0.01%
Total	67%

Source: Muscat Clearing & Depository (2021).

We choose the financial sector "as it is heavily regulated by two bodies, namely the CMA and the Central Bank of Oman (CBO), and also considered to be the backbone of the whole economy in the general and non-financial sector in particular" (Al Lawati et al., 2021, p. 12).

3.2. Regression models

To examine the association between the presence of financial experts on ACs and corporate financial decisions, we estimate the following equations.

Model 1 is used to examine the impact of AC with financial expertise on capital structure.

Model 1

$$LEV = \alpha + \beta_1 ACFin + \beta_2 ACMeet + \beta_3 ACSize + \beta_4 OvAC + \beta_5 Total\ Asset + \beta_6 ROE + \beta_7 Big4 + Industry\ fixed\ effect + Year\ fixed\ effect + e \quad (1)$$

where, *LEV* refers to firm leverage; *ACFin* refers to AC directors with financial expertise; *ACMeet* refers to the number of AC meetings; *ACSize* refers to the number of AC members; *OvAC* refers to the overlapped AC members within a company; *Total Asset* refers to firm size; *ROE* refers to firm profitability; *Big4* takes the value of 1 if the company's financial statements are audited by one of the Big 4 external auditors and 0 otherwise.

Model 2 is used to examine the impact of AC with financial expertise on dividend policy.

Model 2

$$DIV = \alpha + \beta_1 ACFin + \beta_2 ACMeet + \beta_3 ACSize + \beta_4 OvAC + \beta_5 Total\ Asset + \beta_6 ROE + \beta_7 LEV + \beta_8 Big4 + Industry\ fixed\ effect + Year\ fixed\ effect + e \quad (2)$$

where, *DIV* refers to the amount of dividend paid in year *t*; *ACFin* refers to AC directors with financial expertise; *ACMeet* refers to the number of AC meetings; *ACSize* refers to the number of AC members; *OvAC* refers to the overlapped AC members within a company; *Total Asset* refers to firm size; *ROE* refers to firm profitability; *LEV* refers to firm leverage; *Big4* takes the value of 1 if the company's financial statements are audited by one of the Big 4 external auditors and 0 otherwise.

Model 3 is used to examine the impact of AC with financial expertise on cash holdings.

Model 3

$$Cash = \alpha + \beta_1 ACFin + \beta_2 ACMeet + \beta_3 ACSize + \beta_4 OvAC + \beta_5 Total\ Asset + \beta_6 ROE + \beta_7 LEV + \beta_8 Big4 + Industry\ fixed\ effect + Year\ fixed\ effect + e \quad (3)$$

where, *Cash* refers to the amount of excessive free cash in the firm; *ACFin* refers to AC directors with financial expertise; *ACMeet* refers to the number of AC meetings; *ACSize* refers to the number of AC members; *OvAC* refers to the overlapped AC members within a company; *Total Asset* refers to firm size; *ROE* refers to firm profitability; *LEV* refers to firm leverage; *Big4* takes the value of 1 if the company's financial statements are audited by one of the Big 4 external auditors and 0 otherwise.

3.3. Variable: Measurement and description

The dependent variables for Models 1, 2, and 3: Capital structure, dividend payment, and cash holdings

For Model 1, to measure firm capital structure, proxied by its leverage, which is the ratio of total debt to total assets following Vithessonthi and Tongurai (2015) and Detthamrong et al. (2017).

For Model 2, the dividend pay-out is defined and measured as the aggregated declared dividends of a company paid out per year following Elmagrhi et al. (2017). We measure the dividend ratio by dividing the dividend paid to total assets following Jiraporn et al. (2011).

For Model 3, the dependent variable is cash holdings, which is measured as cash to total assets following Bates, Kahle, and Stulz (2009), Martínez-Sola, García-Teruel, and Martínez-Solano (2013), and Al-Hadi et al. (2020).

Independent variable

We classify AC directors as a financial expert *(ACFin)* following Al Lawati et al. (2021) "as those who are certified public accountants (CPAs) or have prior work experience as a chief financial officer (CFO), vice president of finance, financial controller, investment banker, chief investment officer, financial analyst, auditor, or any other corporate finance or major accounting position" (p. 17). We measure *ACFin* as the percentage of AC directors with financial expertise to the total number of AC members in a firm.

The Sarbanes-Oxley Act defined the term "AC financial expertise" as an individual possessing all of the following attributes:

- *"An understanding of GAAP and financial statements;*
- *The ability to assess the general application of GAAP to accounting for estimates, accruals, and reserves;*
- *Experience preparing, auditing, analyzing, or evaluating financial statements of a breadth and level of accounting complexity generally comparable to that expected to be present in the company's financial statements (or experience actively supervising others engaged in such activities);*
- *An understanding of internal control over financial reporting; and*
- *An understanding of audit committee functions"* (SEC, 2003).

This individual "AC financial expertise" must have possessed the preceding attributes "through education and experience as a public accountant or auditor or a principal financial officer, or controller, or principal accounting officer of an issuer, or from a position involving the performance of similar functions" (SEC, 2003).

Control variable

Following corporate financial decisions studies (e.g., Elmagrhi et al., 2017; Qiao et al., 2018; Choi et al., 2020; Al-Hadi et al., 2020), we control for common firm characteristics and AC characteristics that could affect the dependent variables of our study (dividends pay-out, capital structure, and cash holdings), such as firm profitability *(ROE),* firm size *(LogAsset)* measured by the natural logarithm of total assets, *Big 4* measured by dichotomous variable equal to 1 if the company is audited by Big 4 auditor and 0 otherwise, *(ACSize),* which refers to the number of members in the AC, (*ACMeet),* which refers to the number of meetings held by the AC and *Busy directors (OvAC)* refers to the proportion of AC members who also sit on different committees within a company.

Further details on the literature used to support using these control variables are provided in Table 2.

Table 2. Control variables definitions and measurements

Dividend payment	*Measurement*	*Previous literature*
	Control variables	
Firm profitability	Return on equity (ROE)	Caskey and Hanlon (2013), Elmagrhi et al. (2017), Qiao et al. (2018), Shamsabadi et al. (in press), Baker et al. (2020)
Firm size	The natural logarithm of total assets	Caskey and Hanlon (2013), Elmagrhi et al. (2017), Qiao et al. (2018), Shamsabadi et al. (in press), Baker et al. (2020)
Firm leverage	Total debts to total assets	Caskey and Hanlon (2013), Elmagrhi et al. (2017), Qiao et al. (2018), Shamsabadi et al. (in press), Baker et al. (2020)
Big 4	Dummy variable: takes the value of 1 if the company's financial statements are audited by one of the Big 4; 0 otherwise	Shamsabadi et al. (in press), Baker et al. (2020)
AC Size	No. of AC directors	Elmagrhi et al. (2017), Shamsabadi et al. (in press), Baker et al. (2020)
AC Meeting	No. of AC meetings	Elmagrhi et al. (2017), Shamsabadi et al. (in press), Baker et al. (2020)
Overlapped (busy) membership	Directors being busy setting on different committees	Al-Najjar and Hussainey (2009)
Cash holdings	***Measurement***	***Previous literature***
	Control variables	
Firm profitability	ROE	Al-Najjar and Clark (2017), Choi et al. (2020), Al-Hadi et al. (2020)
Firm size	The natural logarithm of total assets	Al-Najjar and Clark (2017), Choi et al. (2020), Al-Hadi et al. (2020)
Firm leverage	Total debts to total assets	Al-Najjar and Clark (2017), Choi et al. (2020), Al-Hadi et al. (2020)
Big 4	Dummy variable: takes the value of 1 if the company's financial statements are audited by one of the Big 4; 0 otherwise	Choi et al. (2020)
AC Size	No. of AC directors	Choi et al. (2020), Al-Hadi et al. (2020)
AC Meeting	No. of AC meetings	Choi et al. (2020)
Overlapped (busy) membership	Directors being busy setting on different committees	Chou and Feng (2019)
Capital structure	***Measurement***	***Previous literature***
	Control variables	
Firm profitability	ROE	Fernandez et al. (2013), Al Ani and Al Amri (2015), Singh (2016)
Firm size	The natural logarithm of total assets	Fernandez et al. (2013), Al Ani and Al Amri (2015), Singh (2016)
Big 4	Dummy variable: takes the value of 1 if the company's financial statements are audited by one of the Big 4; 0 otherwise	Elghuweel (2015)
AC Size	No. of AC directors	Elghuweel (2015)
AC Meeting	No. of AC meetings	Elghuweel (2015)
Overlapped (busy) membership	Directors being busy setting on different committees	Trinh et al. (2020)

4. RESULTS

4.1. Descriptive statistics

Table 3 presents the descriptive statistics. Our study reveals that firm leverage has a mean value of 16%, which is approximately close to what has been reported by Khaki and Akin (2020) in the GCC context of 19%. The mean value of the cash holdings is 6% of the total assets, indicating that Omani financial firms hold a low amount of cash during the sample period. The value is low compared to what Al-Hadi et al. (2020) find in the GCC, which is about 12%. The mean value of the dividend ratio is 1%, which is higher than the dividend ratio reported in GCC about 4%. The average value of AC with financial expertise is 73%, with a maximum of 100% and a minimum of 0. This indicates that still there are some Omani financial companies that are not following the CG provision in hiring at least one member with financial/accounting expertise on AC. The mean values of the control variables are overall consistent with a recent study conducted on Omani financial firms (Al Lawati et al., 2021).

Table 3. Descriptive statistics

Variables	*Mean*	*Std. Dev.*	*Min*	*Max*
CashRatio	0.06	0.09	-0.33	0.76
ACFin	0.73	0.28	0.00	1.00
ACMeet	4.82	1.60	0.00	12.00
ACSize	3.38	0.58	2.00	6.00
OvAC	0.36	0.32	0.00	1.00
LogAsset	2.05	0.92	-0.40	4.10
ROE	2.21	31.93	-251.20	37.41
LEVTDTA	16.38	21.88	0.00	69.58
Big4	0.89	0.31	0.00	1.00
Dividend	5,063.75	12,647.77	0.00	103,159.00
DividendRatio	0.01	0.01	0.00	0.08

Note: See subsection 3.3 for variable definitions.

4.2. Correlation analysis

Table 4 presents the Pearson correlation analysis. There is a positive correlation between AC financial expertise and capital structure. However, no significant correlations have been found between AC financial expertise and the other dependent variables (cash holdings and dividend payment). The variables are free from the multicollinearity problem as the correlation coefficients between all the variables are less than 0.7.

Table 4. Correlation analysis

	Variables	1	2	3	4	5	6	7	8	9	10
1	Cash Ratio (%)	1									
2	LEV (TD/TA)	-0.169*	1								
3	Dividend Ratio (%)	-0.069	0.146*	1							
4	ACFin(%)	0.071	0.146*	-0.063	1						
5	ACMeet	0.098	-0.011	0.010	0.006	1					
6	ACSize	-0.028	0.021	0.072	0.069	0.008	1				
7	OvAC (%)	0.162*	-0.189**	0.007	-0.060	0.256**	-0.052	1			
8	LogAsset	0.231**	0.171*	-0.086	0.178**	0.367**	0.065	0.227**	1		
9	ROE%	0.032	0.090	0.126	-0.027	0.104	0.113	0.016	0.355**	1	
10	Big4	0.071	0.200**	0.004	0.034	0.196**	0.047	0.132	0.444**	0.381**	1

*Notes: * Correlation is significant at the 0.05 level (2-tailed). ** Correlation is significant at the 0.01 level (2-tailed).*

4.3. Regression analysis

Table 5 reports our empirical findings. Model 1 tests *H1,* which examines the impact of AC financial expertise on capital structure. Model 2 tests *H2,* which investigates the impact of AC financial expertise on dividend policy. Model 3 tests *H3,* which investigates the influence of AC financial expertise on cash holdings. All models are significant, with Prob > F values are less than 0.01, reflecting their validity.

4.3.1. The impact of AC with financial expertise on corporate capital structure

In Model 1 the coefficient of AC with financial expertise is positive and significant with firm leverage at the confidence level of 90%. Hence, we accept *H1*. The result is consistent with resource dependence theory and Detthamrong et al. (2017), which state that directors with professional experience and unique resources that they have, could increase the access to issue more debt through their network channels inside and outside of the company. This will enable them to provide reliable information to the firms' users and decrease agency conflicts and problems between managers and shareholders. This is consistent with Rao et al. (2007) who state that directors of confident firms are issuing more debt instead of equity to signal firms growth prospects and enhance shareholder wealth maximisation instead of spreading risks among equity holders.

Moving to control variables, we find that firm size and audit firm reputation (Big 4) are positively and significantly influencing firm leverage at the confidence level of 90% and 95% respectively. The findings are consistent with Detthamrong et al. (2017). Large firms tend to have a high percentage of debts. As receiving bank loans require firms to use their fixed assets as collateral, therefore, large firms are likely to be more financially permitted (Megginson, Ullah, & Wei, 2014). They do not have to hold more cash to protect themselves from any potential of unforeseen liquidity shocks. Also, companies whose financial statements are audited by Big 4 audit firms provide vital additional knowledge about the firm's credit risk to the capital providers. This information could lead to strength the credit approval, hence increasing the opportunities of getting more loans. However, we find a negative effect of overlapping AC membership on firm leverage at the confidence level of 99%. This could be due that busy, overlapped directors will try to protect their reputation by playing an important role in lessening investors' information and credit risks, and therefore reducing a firm's cost of capital (Trinh et al., 2020).

4.3.2. The impact of AC with financial expertise on dividend policy

In Model 2 we find that AC members with financial expertise positively and significantly affect the level of dividend payment policy in Omani financial firms at the confidence level of 90%. Therefore, *H2* has been accepted. Consisting with signalling theory and with previous studies (Jiraporn et al., 2011; Qiao et al., 2018), we find that financial experts use their professional experience in providing suitable strategic advice to adjust dividend policies through their advisory roles by paying larger dividends to signal the good CG to the markets. This will help in preventing managers from using these funds to benefit their interests or investing in negative net present value projects.

Moving to the control variables, we find that *ACMeet* and *ACSize* are positively and significantly affecting the level of dividend payment at the confidence levels of 90% and 99%, respectively. This is consistent with Jiraporn et al. (2011) who find that strong CG increases the level of dividend payment. However, we find that overlapping AC members are negatively and significantly affecting the level of dividend policy at the confidence level of 99%. This could be due to the comprehensive and thorough knowledge they possess from serving on different committees which lead them to reduce the agency problems by using accounting conservatism to monitor and control managerial opportunistic behaviour. Regarding firm characteristics, we find that firm profitability and leverage negatively affect dividend policy at the confidence level of 95% and 99%, respectively. This is due to the role they play in "mitigating agency costs and because of debt covenants on dividends imposed by debtholders"

(Jiraporn et al., 2011, p. 265). This could be explained that profitable firms are preferring to use their profits to maintain their earnings and fund more positive net present value projects rather than paying dividends (Al-Najjar & Belghitar, 2011). Also, leverage firms pay less dividends to signal to shareholders the accurate situation of the company, which leads them to maintain their good reputation in the market of being transparent and truthful. Moreover, we find a positive relationship between firm size and dividend payment at the confidence level of 99%. This indicates that large firms reach the maturity stage and therefore they are able to pay dividends comfortably (Al-Najjar & Belghitar, 2011).

4.3.3. The impact of AC with financial expertise on cash holdings

In Model 3, the estimated coefficient of *ACFin* is positive and significant with cash holdings at the confidence level of 90%, consisting of agency theory. Therefore, we accept *H3*. The result indicates that the existence of professional members as financial experts on AC will increase the monitoring and controlling of managerial investment decisions and hence will increase the level of cash holdings. The finding is consistent with Al-Hadi et al. (2020) who find that "members with greater monitoring and financial expertise increase firms' level of cash holdings by ensuring that value-increasing NPV projects are funded" (p. 11).

With regard to control variables, we find that firm profitability and leverage are negatively associated with the level of cash holdings at the confidence level of 99%, consistent with Al-Hadi et al. (2020) findings in GCC. This could be due to that profitable firms could easily use their profits to finance their future investments instead of depending on external sources to raise funds (Al-Najjar & Belghitar, 2011). In addition, we provide evidence that firms with a high leverage ratio indicate their good reputation in the market of successful ability to raise funds externally, which lead them to have a lower level of cash holdings. This also could be due to that leverage and cash are considered to be substitutes for each other (Megginson et al., 2014). We also find a positive relationship between firm size and the level of cash holdings at the confidence level of 99%, in line with Al-Najjar and Clark's (2017) results in the MENA region. This indicates that large firms stockpile more cash to finance their investment projects due to the limited capacity of external financing in the MENA region (due to a weak economic situation).

Table 5. Regression analyses

Model 1			***Model 2***			***Model 3***		
Capital structure			***Dividend payment***			***Cash holdings***		
Variables	***Coefficients***	***Significance***	***Variables***	***Coefficients***	***Significance***	***Variables***	***Coefficients***	***Significance***
ACFin	7.985*	0.100	*ACFin*	0.0759*	0.090	*ACFin*	0.039*	0.095
ACMeet	-0.555	0.570	*ACMeet*	0.1893*	0.094	*ACMeet*	0.002	0.636
ACSize	-0.515	0.835	*ACSize*	0.2282***	0.001	*ACSize*	-0.010	0.349
OvAC	-15.858***	0.001	*OvAC*	-0.1253***	0.000	*OvAC*	0.018	0.416
LogAsset	3.552*	0.067	*LogAsset*	1.7458***	0.000	*LogAsset*	0.041***	0.004
ROE	-0.012	0.808	*ROE*	-0.0027**	0.030	*ROE*	-0.001***	0.001
Big4	12.413**	0.021	*LEVTDTA*	-0.0032***	0.011	*LEVTDTA*	-0.002***	0.000
_cons	2.324	0.827	*Big4*	-0.2099*	0.080	*Big4*	0.006	0.800
–	–	–	*_cons*	-4.270***	0.000	*_cons*	-0.058	0.402
Industry Effect	Yes		*Industry Effect*	Yes		*Industry Effect*	Yes	
Years Effect	Yes		*Years Effect*	Yes		*Years Effect*	Yes	
No. of Obs.	216		*No. of Obs.*	216		*No. of Obs.*	216	
Prob > F	0		*Prob > F*	0		*Prob > F*	0	
R^2	0.12		R^2	0.47		R^2	0.23	

*Notes: * coefficient is significant at 10%; ** coefficient is significant at 5%; *** coefficient is significant at 1%; See subsection 3.3 for variable definitions.*

5. ADDITIONAL ANALYSIS: IMPACT OF AC SUPERVISORY EXPERTISE ON CORPORATE FINANCIAL DECISIONS

One category of financial experts is supervisory experts, and they are considered a large portion of AC financial experts (Choi et al., 2020). Omani CMA regulators call for diversifying AC members with different and rich expertise (Al Lawati et al., 2021). We examine further the role of supervisory expertise on ACs *(ACSup)* on corporate financial decisions.

On the one hand, based on resource dependence theory, AC supervisory experts are complementing the role of financial experts and enhancing the monitoring role of AC by utilising their unique past work experience (Kusnadi et al., 2016). Several studies find a positive relationship between supervisory experts and corporate decisions (Goh, 2009; Hoitash & Hoitash, 2009; Mustafa & Ben Youssef, 2010; Cohen et al., 2014; Faleye, Hoitash, & Hoitash, 2018).

On the other hand, these members could impair the role of ACs in overseeing FRQ process as they lack specialized knowledge in the accounting and financial fields. Several studies find a negative relationship between these members and corporate decisions (Davidson et al., 2004; DeFond et al., 2005; Krishnan & Visvanathan, 2008; Naiker & Sharma, 2009; Dhaliwal et al., 2010).

We follow Kusnadi et al. (2016) and Al Lawati et al. (2021) in measuring AC supervisory expertise as "members with prior work experience in supervisory roles (ACSup) such as chief executive officers (CEO), chief operation officers (COO), chairman of a board of directors, or company presidents and or having more than 20 years of experience in their field" (Al Lawati et al., 2021, p. 23). We measure

the variable as the proportion of supervisory experts on AC to the total number of AC directors.

The analysis is shown in Table 6. The table shows that AC directors with supervisory expertise are positively and significantly affecting corporate financial decisions (leverage at confidence level of 99%, dividend payment at confidence level of 90%, and cash holdings at confidence level of 95%). The results are consistent with agency, resources dependence and signalling theories and with previous studies (Kusnadi et al., 2016; Faleye et al., 2018), which state that these members are complementing and adding to the role played by AC financial experts and improving their overseeing role by utilising their distinctive past work experience in providing suitable and better financial decisions to the board and company's managers.

Table 6. Impact of AC supervisory expertise on financial decisions

Model 1			*Model 2*			*Model 3*		
Capital structure			*Dividend payment*			*Cash holdings*		
Variables	*Coefficients*	*Significance*	*Variables*	*Coefficients*	*Significance*	*Variables*	*Coefficients*	*Significance*
ACSup	16.573***	0.010	*ACSup*	0.051*	0.090	*ACSup*	0.065**	0.020
ACMeet	-1.132	0.251	*ACMeet*	0.190**	0.052	*ACMeet*	-0.003	0.471
ACSize	0.110	0.964	*ACSize*	0.228***	0.001	*ACSize*	-0.004	0.720
OvAC	-16.718***	0.000	*OvAC*	-0.134***	0.000	*OvAC*	0.016	0.425
LogAsset	4.283**	0.023	*LogAsset*	1.740***	0.000	*LogAsset*	0.028***	0.001
ROE	-0.005	0.918	*ROE*	-0.003***	0.013	*ROE*	-0.0001	0.737
Big4	12.306**	0.021	*LEVTDTA*	-0.003**	0.037	*LEVTDTA*	-0.001***	0.001
_cons	-4.165	0.704	*Big4*	-0.209*	0.064	*Big4*	0.002	0.925
–	–	–	*_cons*	-4.15***	0.000	*_cons*	-0.007	0.873
Industry Effect	Yes		*Industry Effect*	Yes		*Industry Effect*	Yes	
Years Effect	Yes		*Years Effect*	Yes		*Years Effect*	Yes	
No. of Obs.	216		*No. of Obs.*	216		*No. of Obs.*	216	
Prob > F	0		*Prob > F*	0		*Prob > F*	0	
R^2	0.14		R^2	0.48		R^2	0.13	

*Notes: * coefficient is significant at 10%; ** coefficient is significant at 5%; *** coefficient is significant at 1%; See subsection 3.3 for variable definitions.*

6. CONCLUSION

This paper examines the impact of AC directors with financial expertise on corporate financial decisions (capital structure, dividend policy, and cash holdings) within Omani financial firms. Oman provides an ideal context to investigate such relationships as the CG Code has given a significant focus on the characteristics of AC directors and has called for a diversity of experience within AC members to enhance their role in monitoring the management behaviours. Using data for the period 2014–2019, we find that AC directors with financial and supervisory expertise are positively affecting corporate financial decisions by providing supplementary monitoring and overseeing management investment decisions. Therefore, this will lead to an increase in the level of firm leverage, dividend payment, and cash holdings of the firms. The results indicate that shareholders perceive good CG as an effective mechanism for monitoring firms' financial decisions, and companies with specialised directors on AC are in a better position to monitor and constrain opportunistic management behaviour.

This paper contributes to the CG and financial decisions literature in several ways. It is the first study, to the best of our knowledge, to examine the effect of AC financial and supervisory expertise on corporate financial decisions in Oman, "which is characterized by generally weak investor protection, poor regulation quality and a weaker enforcement regime. These factors are likely to affect firms' level of cash holdings, as cash reserves are typically used to safeguard a firm against adverse shocks" (Al-Hadi et al., 2020, p. 18). Also, we integrate several theories, namely, agency, signalling and resource dependence to explain the effect of the unique power of the financial and supervisory expertise on making useful financial decisions by the board. Moreover, using a recent time frame and data set of the CG in the context of Oman from 2014 to 2019 contributed significantly to the literature as till to date there is a dearth of studies that have examined this time frame which includes the inauguration of the revised CG code (such as Al Lawati & Hussainey, in press; Al Lawati et al., 2021).

The study offers a number of practical implications to regulators and academics. For regulators, the results show the significant role of AC financial and supervisory expertise in implementing high-quality financial decisions. Therefore, regulators in Oman should encourage financial firms to exceedingly appoint directors with professional and diversified experiences on AC to work as an effective tool to monitor management opportunistic behaviours. The study also provides important implications to other regulators of developing countries in situations of emerging different mandatory and voluntary committees within their firms. For academics, investigating the impact of characteristics of different committees' members, such as risk and nomination and remuneration on financial decisions would be important in the context of Oman, given the fact that these committees are been mandated within the revised version of the Omani CG.

The study is not free from limitations. Using one country would lessen the generalisability of findings. Future studies could extend the research to several developing countries such as GCC. Future research could also examine the effect of different characteristics of AC such as interlocked directors and female AC members on corporate financial decisions.

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