

THE MODERATING EFFECT OF AUDIT COMMITTEE CHAIRMAN'S MULTIPLE DIRECTORSHIPS ON THE RELATIONSHIP BETWEEN AUDIT COMMITTEE CHARACTERISTICS AND FIRM PERFORMANCE

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Abstract

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The aim of this study was to investigate the impact of corporate governance characteristics, particularly the characteristics of audit committees (ACs), on the performance of finance companies. Specifically, it sought to determine if the multiple directorships of the audit committee chairperson (ACC) moderate the relationship between the AC characteristics (i.e., independence, size, meeting frequency, and expertise) and the performance of finance companies. Multiple directorships have become an increasing issue in a number of countries around the world (Saleh, Shurafa, Shukeri, Nour, & Maigosh, 2020). In Malaysia, based on the mandatory listing requirements for the Bursa Malaysia, for example, directors can have up to 25 directorships, 15 of which can be in non-public corporations and the remaining 10 in public organizations. The study was conducted on 140 observations obtained from 28 financial companies listed on Bursa Malaysia over the period 2015–2019. The Pearson correlation coefficient and multiple linear regressions were employed. The study findings show that the corporate governance characteristics, specifically the AC characteristics (i.e., independence, size, meeting frequency, and expertise), have a substantial influence on finance company performance but the fact that the ACC has multiple directorships has no significant moderating impact on corporate performance's associations with AC expertise and independence. On the other hand, the study results show that the fact that the ACC has multiple directorships has a strong moderating impact on the corporate performance's associations with AC meeting frequency and size.

Keywords: Corporate Governance, Audit Committee, Audit Committee Chairperson's Multiple Directorships, Corporate Performance, Finance Sector, Malaysia

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1. INTRODUCTION

As a result of the significant financial failures that have occurred (e.g., Tyco, Enron, and WorldCom) and the 2008 financial crisis, audit committees (ACs) have been given significant authority to maintain the financial reporting integrity of companies (Wilbanks, Hermanson, & Sharma, 2017). The major role of ACs in good corporate governance is to supervise companies' financial reporting process and to ensure that the management publishes the company's results in an ethical way while also minimizing information asymmetry (Al-Okaily & Naueihed, 2020). Because the financial reporting problems examined by AC members are complex, a large number of directors with extensive director experience and with much available time to perform the work is required (Sultana, 2015). As a result, AC composition and independence (Klein, 2002), AC members' experience (Kusnadi, Leong, Suwardy, & Wang, 2016), and AC meeting frequency determine the feasibility of AC oversight (Anderson, Mansi, & Reeb, 2004).

The structure of corporate governance became a major concern for all Asian countries following the 1997 Asian financial crisis, which also impacted Malaysia. Thus, Malaysia has taken drastic measures to overhaul its economic corporate governance. One such move was the implementation of the Malaysian Code on Corporate Governance (MCCG) in 2000. As a result of this, Bursa Malaysia had to form ACs. Furthermore, ACs must include at least three directors, two of whom must be independent, and the chairperson must be a non-decision-making independent director. ACs were established to allow direct coordination between the external auditors and the board; the AC members regularly meet with the company's auditors to review the company's financial statements and approve the company's procedures.

The agency theory suggests that when the management responsibilities are separated from the ownership duties without accessible even information, principal-agent clashes will occur (Jensen & Meckling, 1976; Shleifer & Vishny, 1997). It also stresses that such clashes usually result from the unsuitable activities of company properties arising from the contractor's egotism in handling ventures, which entail high costs and are not in accordance with the capital providers' plans.

In this sense, considerably more importance has been given (via corporate governance) to various external and internal processes to prevent company disputes and reduce the costs associated with such. To achieve the purpose of mitigating disputes among agencies, ACs have been designated as a mechanism for eliminating information anomalies between managers and stakeholders, thus tackling conflicts among agencies. According to research by Dechow, Sloan, and Sweeney (1996), firms without ACs are more likely to submit false financial reports.

MCCG was completed in 2000 and was subsequently reviewed in 2007 and 2012. According to MCCG of 2012, the elementary task of ACs is to serve as the company's internal control system, ensuring and attesting to the dependability of the financial information used in the business and for disclosure purposes. It is thus very important for

a company to form an operative AC to serve as an oversight apparatus for financial reporting.

To the best of the researcher's knowledge, no study has looked into the moderating impact of the multiple directorships of the audit committee chairperson (ACC) on the association between corporate performance and the AC characteristics of independence, size, meeting frequency, and expertise and knowledge. The relevant literature (Kallamu & Saat, 2015) reports studies only on the influence of the AC characteristics on the financial sector as a whole and on the impact of MCCG. However, the present study examined the moderating role of the ACC's multiple directorships as previous studies have shown that directors with multiple directorships are viewed as intellectual resources in certain companies as they are experts in decision-making (Beasley, 1996) and that the independence of the ACC has a substantial influence on corporate performance (Turley & Zaman, 2007). In other words, appointing the chairperson of the AC, who has memberships in other boards, can be considered as an expert, who is likely to positively affect the decisions of the AC, not immediately, but throughout the year, which will therefore lead to a reduction of risks and superior corporate performance such as return on assets (ROA).

In addition, almost all the recent studies that evaluated the impacts of the skills and experience of the AC directors on the performance of financial companies reported examining only the skill of financial literacy. The current study, however, used both the financial literacy of the AC directors and their finance or accounting expertise and background, as indicated by their membership in an accounting association body to fill the gap in the literature. The rest of this study is organized as follows. Section 2 describes the literature review. Section 3 focuses on the method and model. Section 4 presents the data analysis and results. Section 5 covers the discussion of study results and finally Section 6 presents the conclusion.

2. LITERATURE REVIEW

2.1. Independence of the audit committee and corporate performance

Independence is the most frequently recognized prerequisite for the successful execution of an AC's oversight function in the existing literature on corporate governance. This claim is based on the belief that ACs made up of non-employee directors are best supervised by independent external representatives (Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees, 1999; Sarbanes-Oxley Act of 2002). According to the study by Baxter and Cotter (2009), AC independence is seen as significantly influencing the efficacy of the AC in controlling financial statements. Even if there are additional independent board directors, AC independence is seen as more vital because it means that the structure comprises a large number of independent directors.

The AC should be autonomous from the management so it could carry out its responsibilities (Ismail, Dunstan, & van Zijl, 2009). Better oversight of managers is expected to be

performed by independent ACs because the AC directors are expected not to have any financial or personal link with the management (Hsu & Petchsakulwong, 2010). Moreover, the independence of the AC not only enables the auditors inside and outside financial companies to be more reliably tracked and assessed but also strengthens the internal control mechanism of companies. Accordingly, AC independence will ultimately even limit financial reporting fraud (Abbott, Parker, & Peters, 2004).

In view of the foregoing, the 2007 revised MCGG mandates that an AC with at least three members should be established when forming a company, the majority of whom should be independent. Due to the potential of ACs to influence the performance of firms, further studies conducted in Malaysia have shown how important the composition of an AC is. AC's key functions are regularly meeting with the outside and internal auditors to review the company's financial reports and examining the company's processes and internal controls. These, in turn, will aid in the reduction of the company's difficulties by allowing the managers to publishing unprejudiced accounting information to the shareholders and to others who rely on it for decision-making, hence decreasing the information inconsistency between the concerned internal and external entities.

However, the findings of the previous relevant studies show that it is still unknown if there is a positive association or relationship between company performance and AC independence or the AC's proportion of non-executive directors. Chan and Li (2008) determined, however, that the independence of an AC affects the firm's efficiency as evaluated by Tobin's Q. Ameer, Ramli, and Zakaria (2010) discovered that organizations with external directors are more likely to perform better than those dominated by internal auditors and non-executive directors. Independent directors, according to Erickson, Park, Reising, and Shin (2005), can reduce company issues.

Conversely, there is evidence that external (non-executive) AC directors and company performance are negatively associated with each other. Furthermore, Ben Barka and Legendre (2017) argued that the proportion of independent non-executive directors in the AC is negatively related with the company's performance. Dechow, Ge, Larson, and Sloan (2010) found, however, that companies with fewer external directors and no AC are more likely to be victims of fraud than companies of the same size in the same industry with more outside directors and ACs. According to Erickson et al. (2005), the directors' independence is meant to mitigate the company's difficulties and the independence of the AC is frequently essential to address company issues.

The first hypothesis below can thus be empirically tested based on the foregoing argument and the agency theory.

H1: There is a positive relationship between the independence of the audit committee members and corporate performance.

2.2. Audit committee size and corporate performance

The resource dependency theory states that the bigger the AC, the better for the company's growth and progress. This theory further holds that the AC members can possess external tools (e.g., skills and knowledge) that will better enable them to observe the management, thus generating a high level of profits. According to the Committee of the Financial Aspects of Corporate Governance (1992), Smith Committee (2003), and Sarbanes-Oxley Act of 2002, the AC must have at least three members. According to Buchalter and Yokomoto (2003), the AC can be made up of three to five representatives, but its size usually depends on the size of the company.

The 2007 revised MCGG allows companies to have at least three AC members who are all non-executive directors. It is suggested that the size and performance of the board of a company have a positive connection with each other. This assumption has been supported by several studies (Alqatamin, 2018; Zraiq & Fadzil, 2018). Dalton, Daily, Johnson, and Ellstrand (1999) confirmed the existence of a positive relationship between the size and monitoring process of the board that gives rise to greater performance. Mohd Saleh, Mohd Iskandar, and Mohid Rahmat (2007) also emphasized that ACs with more members are more likely to enjoy miscellaneous skills and knowledge, which in turn is expected to improve their monitoring. These findings were sustained by El Mir and Seboui (2008).

Thus, a bigger AC is probably more likely to reform the practice of corporate governance and ultimately lead to improved firm performance. Accordingly, the hypothesized relationship (the second hypothesis) below is suggested.

H2: There is a positive relationship between the audit committee size and corporate performance.

2.3. Audit committee meeting frequency and corporate performance

According to the study by Xie, Davidson, and DaDalt (2003), the number of meetings of an AC may be safely assumed to be a substitute for its activities. As a result, an AC that regularly meets with its auditors is likely to be more aware of the company's accounting and auditing difficulties. When a challenging audit or accounting issue arises, the AC should conduct the appropriate degree of internal auditing to address the problem quickly. MCGG 2000 states that firms shall have a minimum of three or four meetings per year to ensure that the AC is willing to follow the audit cycle and the date of released annual reports, and extra meetings in regard to the events that may occur during the financial year.

It has been empirically shown that regular AC meetings greatly help alleviate various company problems, which inevitably impact the company's performance, although there have been contrary findings on this matter (Mohd Saleh et al., 2007; Xie et al., 2003). Vafeas (1999) affirmed that the frequent meetings and performance of a firm formed a constructive association with each other that clearly illustrates the influence of board

member meetings. Further studies have shown that regular AC meetings are a significant mechanism that influences a company's performance (Al-Matari, Al-Swidi, Fadzil, & Al-Matari, 2012; Mohd Saleh et al., 2007).

Accordingly, the third hypothesis below is postulated.

H3: There is a positive relationship between the frequency of audit committee meetings and corporate performance.

2.4. Audit committee expertise and knowledge and corporate performance

The value of AC expertise is clearly shown by the suggestion of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees (1999) that no less than one financial specialist should be included in each AC. Similarly, the Sarbanes-Oxley Act of 2002 established a new rule requiring each AC to have at least one financially qualified member. Furthermore, according to DeZoort and Salterio (2001), having members of an AC who are knowledgeable in finance and accounting leads to the AC's better understanding of auditing issues and risks. Moreover, the financial expertise of the AC members makes it easier for the AC to perform its monitoring tasks and to identify substantial misstatements (Raghunandan, Rama, and Read, 2001).

According to MCG 2000, financial issues must be well understood by the AC members. It is also specified that at least one member of the AC must be a member of the Malaysian Institute of Accountants and should have at least three years' job experience (Bursa Malaysia Listing Criteria, 2020, Chapter 15.09, subsection 1(c), p. 1504).

The study by Schmidt and Wilkins (2013) revealed the importance of financial experience on the part of the AC members. Other researchers contend that the AC members' financial competence provides considerable and important help to their clients, assuming that their financial knowledge is useful in detecting any manipulation. Financially knowledgeable AC members have the experience and capability to comprehend the risks related to the management tasks.

As a result, the presence of at least one financially knowledgeable AC member in a firm can improve its performance. Thus, the fourth and fifth hypotheses below are postulated.

H4: There is a significant relationship between audit committee financial literacy and corporate performance.

H5: There is a significant relationship between the presence of an accounting professional in audit committees and corporate performance.

2.5. Moderating effect of the audit committee chairperson's multiple directorships

The discussion about whether directors (e.g., ACCs) being on several boards is helpful to the company has expanded in the corporate governance literature. The reputation theory, which is in accord with the agency and resource dependency theories, claims that having a large number of directorships allows chairpersons and financial specialists to gain skill and expertise. The study by Chtourou, Bedard,

and Courteau (2001) demonstrated how managers who also manage other companies develop better governance skills. As a result, they carry out their management or supervision functions with a higher degree of efficiency and quality. In addition, the findings of Sharma, Sharma, Tanyi, and Cheng (2020) support the idea that audit committee directors serving on numerous ACs are seen favorably by investors, but only to the degree that such service does not impair the directors' capacity to properly fulfill their governance obligations. The busyness theory, on the other hand, claims that directors (e.g., ACCs) who are part of many boards are overworked, causing them to neglect their duties as directors. Therefore, directors who work for more than one firm cannot afford to track their managers and offer effective advice to them (Elyasiani & Zhang, 2015).

Studies on the impact of multiple directorships on earnings management have shown conflicting results. Some authors have discovered a positive connection between the two (Baatour, Ben Othman, & Hussainey, 2017; Mansor, Che-Ahmad, Ahmad-Zaluki, & Osman, 2013) while others have discovered a negative connection between them (Banderlipe, 2009; Mohd Saleh et al., 2007). Nonetheless, Samsuri (2010) found no evidence of a link between an ACC with several directorships in other companies and earnings management.

In terms of financial reporting quality, the study by Beasley (1996) revealed that directors who hold additional directorships in other companies are significantly and positively related with the chance of fraudulent financial reporting. According to Dhaliwal, Naiker, and Navissi (2010), on the other hand, the financial reporting quality is significantly improved by having an AC composed of accounting professionals with fewer directorships. The study conducted by Tanyi and Smith (2014) provided evidence of the significantly negative association between ACCs with multiple directorships and the financial reporting quality.

With regard to firm performance, Jiraporn, Kim, and Davidson (2008) discovered that having multiple directorships had a significantly negative association with cooperative performance in their study. Pombo and Gutiérrez (2011) revealed that according to the agency and resource dependency theories, ACCs with multiple directorships have a significant positive association with corporate performance. Therefore, this study hypothesized that ACCs with multiple directorships would enhance the corporate governance instruments (AC characteristics), resulting in enhanced corporate performance. The sixth, seventh, eighth, ninth, and tenth hypotheses below were thus presented for testing.

H6: The fact that the audit committee chairperson has multiple directorships moderates the relationship between audit committee independence and corporate performance.

H7: The fact that the audit committee chairperson has multiple directorships moderates the relationship between audit committee size and corporate performance.

H8: The fact that the audit committee chairperson has multiple directorships moderates the relationship between the frequency of audit committee meetings and corporate performance.

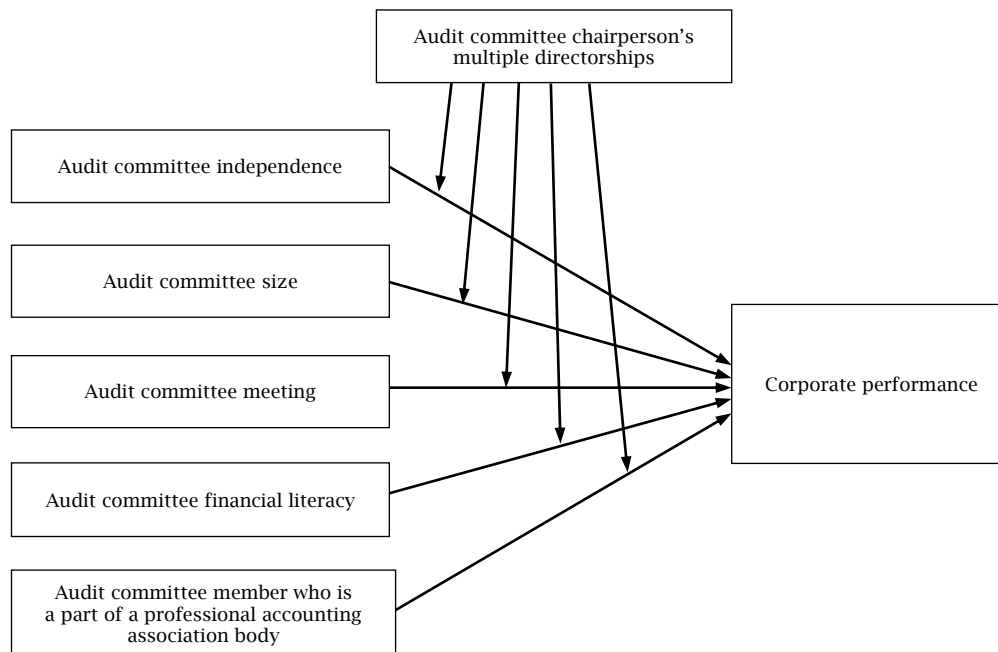
H9: The fact that the audit committee chairperson has multiple directorships moderates

the relationship between audit committee financial literacy and corporate performance.

H10: The fact that the audit committee chairperson has multiple directorships moderates the relationship between the presence of a member of an accounting professional body in the audit committee and corporate performance.

Figure 1 shows the theoretical framework of this study, which was developed in response to the theoretical gaps in the literature about the effectiveness of the audit committee and corporate performance.

Figure 1. Theoretical framework



3. METHOD AND MODEL

3.1. Sample selection

The target population in this study consisted of all the 33 Malaysian companies registered in the financial sector, whose names were acquired from the knowledge center of Bursa Malaysia. However, 5 companies were excluded as they lack corporate governance and financial data so the final list of the companies that were included in the analysis consisted of 28 public listed companies, and a total of 140 observations were made for 5 sequential years (over the period 2015-2019). AC characteristic data were gathered from the annual reports of the companies that were included in the study, which were published on the Bursa Malaysia website¹. Financial data from DataStream were likewise collected. In addition, the financial data that were not in DataStream were obtained from the companies' annual reports.

3.2. Measures of the variables

Based on the current AC literature (Ismail et al., 2009; Wan Mohammad, Wasiuzzaman, & Nik Salleh, 2016), the number of independent non-executive directors in the AC was divided by the total number of AC members to calculate the independence of the AC (*ACINDEP*). As for the size of the AC (*ACSIZE*), it was evaluated based on the total number of AC members (Al-Rassas & Kamardin, 2015;

Mohd Saleh et al., 2007). The overall number of AC meetings held during the year was utilized for the AC meeting frequency (*ACMEET*) (Zaman, Hudaib, & Haniffa, 2011). The AC financial literacy (*ACFAL*) was assessed based on the ratio of AC members with accounting/financial degrees or experience to the overall number of AC members (Elbahar, El-Bannany, & El Baradie, 2021; Al-Rassas & Kamardin, 2015). The presence of an AC member who is a part of a professional accounting association body (*ACPROF*) was measured based on the ratio of AC members who are part of an accounting professional body to the overall number of AC members. Following the study of Baatwah, Salleh, and Stewart (2019), ACC's multiple directorships were measured as the number of directorships of ACCs with multiple directorships.

The present study employed return on assets (*ROA*) for the measurement of the financial performance of the companies that were included in the study. Numerous previous studies have used *ROA* (Alqatan, Chbib, & Hussainey, 2019; ElHawary, 2021; Klein, 2002, Marashdeh, Alomari, Aleqab, & Alqatamin, 2021) as a measure of corporate performance. There are two main performance measurements that could be used to measure a company's performance, i.e., accounting-based (*ROA*, *ROE*, and *EPS*) and market-based performance (Tobin's *Q* and *P/E* ratio). *ROA* varies widely among companies and is a measure of asset-use efficiency. It can be used as an important indicator to show the difference between businesses' or companies' profitability and the rate of return set as a benchmark (Al-Matari et al., 2012). It also measures

¹ <https://www.bursamalaysia.com/>

the operating and financial performance. ROA is useful for evaluating the overall efficiency in generating a net income from operations using firm's assets.

This study employed firm size as a controlling variable, and it was measured using the book value of the total firm assets, in accordance with the studies by Peng, Li, Xie, and Su (2010). The study also utilized leverage as a control variable, following Kallamu and Saat (2015) it was evaluated by dividing the total liabilities by the total assets. The banking sector has a major role in disseminating funds among industries, promoting growth in the economy, and stabilizing the financial health of the country (Shah & Jan, 2014). It, thus, goes without saying, that an effective banking sector can

sufficiently absorb the adverse effects of a major financial crisis and can serve as a platform supporting the country's economic system (Aburime, 2009). The banking sector is represented by the dummy variable 1 if it is a bank and 0 if it is not.

3.3. Model specifications

This study employed two models to evaluate the relationship between AC characteristics and corporate performance. Model 1 was used to evaluate the direct link between the AC characteristics and corporate performance. Table 1 contains detailed information on all the variables that were used in this study.

Model 1:

$$ROA = \beta_0 + \beta_1 ACINDEP + \beta_2 ACSIZE + \beta_3 ACMEET + \beta_4 ACFAL + \beta_5 ACPROF + \beta_6 FSIZE + \beta_7 LEVGE + \beta_8 BSECT + \varepsilon \quad (1)$$

The moderating effect of the ACC's multiple directorships on the relationship between the AC characteristics and corporate performance was analyzed using Model 2, as shown below.

Model 2:

$$ROA = \beta_0 + \beta_1 ACINDEP_ACCMD + \beta_2 ACSIZE_ACCMD + \beta_3 ACMEET_ACCMD + \beta_4 ACFAL_ACCMD + \beta_5 ACPROF_ACCMD + \beta_6 FSIZE + \beta_7 LEVGE + \beta_8 BSECT + \varepsilon \quad (2)$$

Table 1. Summary of the variables' operationalization

Variable	Variable measurement
ACCMD	Number of directorships of ACCs with multiple directorships
ACINDEP	Percentage of independent directors of the AC (except the chairperson)
ACSIZE	Number of directors of the AC
ACMEET	Number of meetings held by the AC per year
ACFAL	Percentage of AC directors (except the chairperson) with non-accounting financial expertise
ACPROF	Ratio of professional members to the overall number of AC members
ROA	Net income/total assets
FSIZE	Book value of the company's overall assets
LEVGE	Ratio of total liabilities to total assets
BSECT	1 if it is a bank; 0 if it is not

4. DATA ANALYSIS AND RESULTS

4.1. Descriptive statistics

In the present study, descriptive statistics data were obtained before the regression analysis. According

to the descriptive statistics data shown in Table 2, the mean values of *ACINDEP*, *ACSIZE*, *ACMEET*, *ACFAL*, *ACPROF*, and *ACCMD* were 2.031, 3.819, 6.078, 0.405, 0.201, and 4.322, respectively.

Table 2. Descriptive statistics of the study variable measurements

Variable	Obs.	Mean	Max	Min	Std. Dev.
ACINDEP	140.00	2.031	5.000	2.000	0.228
ACSIZE	140.00	3.819	5.000	2.000	0.302
ACMEET	140.00	6.078	11.000	4.000	1.650
ACFAL	140.00	0.405	3.000	1.000	0.811
ACPROF	140.00	0.201	2.000	0.000	0.811
ACCMD	140.00	4.322	7.000	1.000	0.811
ROA	140.00	0.431	55.754	(0.762)	3.070
LEVGE	140.00	1.825	4.950	0.492	0.640
FIRMS	140.00*	291*	3.782*	379.409*	631*
	Firms	Percentage			
BSECT	48.000**	0.343**			

Notes: * Value of firms in million. ** As the bank is a dichotomous variable, we omitted the mean and standard variation, as they have no meaning.

4.2. Correlation analysis

Table 3, which presents the results of the correlation analysis, illustrates that all correlations are less than

the 0.90 as recommended by Hair, Black, Babin, and Andersen (2010); thus, multiple linearity is not a concern in this research.

Table 3. The results of the correlation discriminant validity analysis

Variable	ACFAL	ACINDEP	ACMEET	ACSIZE	ACPROF	BANKS	FIRMS	ACCMD	ROA	LEVGE
ACFAL	1									
ACINDEP	0.184	1								
ACMEET	0.073*	-0.167	1							
ACSIZE	-0.334	-0.154	0.009	1						
ACPROF	0.037**	0.034*	-0.029	0.132	1					
BSECT	-0.126	-0.023	-0.203	0.291*	0.358	1				
FIRMS	0.007	0.134	-0.028	0.032	0.764	-0.019	1			
ACCMD	0.053	0.124*	0.026	0.052**	0.532	0.253	0.721	1		
ROA	-0.125	-0.122	-0.086	-0.035	0.047	-0.063	-0.046	0.3100	1	
LEVGE	0.180**	-0.077	0.497	-0.401	-0.0590	-0.278	-0.056	0.804	-0.093	1

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

4.3. Structural model

In conclusion, regression analysis was conducted to examine the hypothesized relations of the sample variables. In the findings presented in Table 4, the R² value shows that the model's independent variables account for 38.7% of the firm output variance (ROA as proxy). The model's significance was F = 2.648 (p < 0.01), and the adjusted R² is 21.8% (the adjusted R² expresses if other input variables are contributing to this model).

The results show an important connection between AC independence (ACINDEP) and the performance of the finance companies in Malaysia ($\beta = 0.403$; t = 1.965; p < 0.05); thus, H1 is supported. Nevertheless, AC size (ACSIZE) was proven to have no link to the performance of

the finance companies in Malaysia ($\beta = 0.312$; t = 1.046; p > 0.05); therefore, H2 is not supported. AC meeting frequency (ACMEET) was shown to have a significant negative association with the performance of the finance companies in Malaysia ($\beta = -0.358$; t = 2.622; p < 0.05); hence, H3 is not supported. The study's results also show the existence of an important association between AC financial literacy (ACFAL) and the performance of the finance companies in Malaysia ($\beta = 0.603$; t = 1.760; p < 0.01); therefore, H4 is supported. The results also indicate that the presence of an AC member who is part of a professional accounting association body (ACPROF) is definitely important for the performance of the finance companies in Malaysia ($\beta = 0.340$; t = 1.754; p < 0.05); thus, H5 is supported.

Table 4. Model regression analysis results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ACINDEP	0.403*	0.674	1.965	0.030
ACSIZE	0.312	0.524	1.046	0.902
ACMEET	-0.358*	0.695	-2.622	0.041
ACFAL	0.603**	1.206	1.760	0.002
ACPROF	0.340*	0.870	1.754	0.042
FSIZE	1.178	0.590	2.023	0.017
LEVGE	0.046	0.731	0.530	0.583
BSECT	5.093	2.442	2.085	0.019
R ²				0.387
Adjusted R ²				0.218
F-statistic				2.648
Prob. (F-statistic)				0.001
Durbin-Watson				2.142

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

4.4. Testing the moderating effect of the audit committee chairperson's multiple directorships

The moderating effect of the ACC's multiple directorships on the association between the AC mechanisms and corporate performance was examined, as shown in Table 5. The model indicated a significant interaction at the 0.01 level (F = 3,930; p < 0.01). The results shown in Table 5 indicate that the fact that the ACC has multiple directorships has

no significant moderating effect on the relationship between ACINDEP and ROA ($\beta = 0.124$; t = 0.052; p > 0.05), between ACFAL and ROA ($\beta = 2.231$; t = 0.722; p > 0.05), and between ACPROF and ROA ($\beta = 1.152$; t = 0.491; p > 0.05). On the other hand, the results show that the fact that the ACC has multiple directorships has a significant moderating effect on the association between ACSIZE and ROA ($\beta = 1.381$; t = 2.217; p < 0.05) and between ACMEET and ROA ($\beta = 1.162$; t = 2.489; p < 0.05).

Table 5. The regression results on the moderating effects of the ACC's multiple directorships

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ACCMD-ACINDEP	0.124	2.250	0.052	0.953
ACCMD-ACSIZE	1.381*	0.721	2.217	0.029
ACCMD-ACMEET	1.162*	0.417	2.489	0.048
ACCMD-ACFAL	2.231	3.033	0.722	0.459
ACCMD-ACPROF	1.152	2.173	0.491	0.340
FIRMS	0.000	0.000	-0.584	0.560
LEVGE	-3.602	2.474	-1.456	0.148
BSECT	0.393	0.986	-0.398	0.691
R ²				0.246
Adjusted R ²				0.140
F-statistic				3.930
Prob. (F-statistic)				0.000
Durbin-Watson				2.271

Notes: * p < 0.05.

5. DISCUSSION OF STUDY RESULTS

This section presents the conclusions based on the study results. As previously stated, the aim of this study was twofold: to determine if there is a direct connection between the AC characteristics (*ACINDEP*, *ACSIZE*, *ACMEET*, *ACFAL*, and *ACPROF*) and corporate performance (*ROA*) and to see if the fact that the ACC with multiple directorships has a moderating influence on the AC characteristics and corporate performance (*ROA*).

In terms of the independence of the AC members and corporate performance, the study findings show that ACs with greater independence have a major impact on corporate performance, which supports *H1*. One potential reason for this is that ACs with a significant number of independent directors are likely to have greater oversight due to their capacity to endure or overcome the managers' interference (Kallamu & Saat, 2015). The study results further reinforce the agency theory, which indicates that independent directors offer efficient management monitoring, thus improving profitability and reducing the management's propensity for opportunistic behavior. The aforementioned study finding is compatible with that of Buallay (2018) and Kallamu and Seat (2015) that there is a positive link between AC independence and corporate performance.

Regarding AC size (*ACSIZE*), the findings of the present study revealed that it is not significantly related with corporate performance; thus, *H2* is rejected. This is in conflict with the Blue Ribbon Committee's on Improving the Effectiveness of Corporate Audit Committees (1999) mandate that all ACs should have at least three members. However, if an AC is too big, the efficiency of the directors can decrease due to problems with teamwork and procedures, which can lead to inadequate monitoring (Vafeas, 2005).

As opposed to previous studies that found a positive association between the frequency of AC meetings (*ACMEET*) and corporate performance (Kent, Routledge, & Stewart, 2010; Xie et al., 2003), this study discovered a significant negative association between the frequency of AC meetings and corporate performance; thus, *H3* is rejected. AC meetings are a determinant of a company's overall need for financial reporting oversight (Goodwin-Stewart, & Kent, 2006). However, if ACs waste time debating issues unrelated to their monitoring responsibilities, having too many meetings in a year may result in poor reporting quality.

The results of this study indicate an important positive association between the financial literacy of ACs (*ACFAL*) and the performance of the finance companies in Malaysia, which supports *H4*. The study results support the idea that ACs with financial competence are less likely to engage in financial reporting fraud and earnings restatements, and are more likely to provide anticipated updates (Agrawal & Chadha, 2005; Karamanou & Vafeas, 2005). Similarly, this study discovered that the presence of an AC member who is part of a professional accounting association body (*ACPROF*) has a significant positive association with corporate performance. The fifth hypothesis (*H5*) is thus supported, and this result is compatible with

the resource dependency and agency theories, implying that successful AC members are those with financial or accounting expertise and background.

The results of the present study show that the fact that the ACC has multiple directorships moderates the *ACSIZE*- and *ACMEET*-corporate performance relationships. This is reinforced by *H7* and *H8*, which are compatible with the agency and resource dependency theories, indicating that ACCs who hold multiple directorships are regarded as human capital in companies where they are decision-makers. Finally, the findings of the present study indicate that the *ACINDEP*-, *ACFAL*-, and *ACPROF*-corporate performance connections have no moderating impact; thus, *H6*, *H9*, and *H10* are rejected. This supports the busyness theory, which claims that directors (e.g., ACCs) serving on numerous boards are overworked, which leads to their poor performance (Ferris, Jagannathan, & Pritchard, 2003).

6. CONCLUSION

The role of the AC has been increasingly scrutinized after the occurrence of deficiencies in corporate governance. After the past financial crises, the efficiency of the AC has been extremely relevant and has become the subject of legislative reforms. One of the possible reasons for company collapse is that the company's directors have so many other directorships and thus no longer have time to do their job. The holding of multiple directorships among the AC members, especially the key members (ACCs), is popular among large companies in Malaysia and elsewhere, but its effect on corporate performance has not yet been rigorously studied. Therefore, this study is important as it researched the moderating effects of ACC's multiple directorships on the interaction of the AC characteristics with corporate performance. In the context of the Malaysian publicly traded companies, this study also presented empirical evidence of the direct influence of AC characteristics on finance company performance. The analysis involved 140 observations spanning the years 2011–2015. The data were gathered from the annual reports of the companies that were included in the study.

Regression analysis was performed to assess the hypothesized research variables' relationships. The empirical results of the study indicate that independent AC directors and directors with finance or accounting expertise and background improve the performance of financial companies, implying that the requirements for AC independence by Bursa Malaysia and the Central Bank of Malaysia are justified. The study findings also show that the relationships between the size of the AC and the frequency of AC meetings with corporate performance are positively moderated by the ACC's multiple directorships.

The study results contribute to the existing literature on the impact of the AC features independence, background, and experience of the committee's directors and the moderating effect of ACCs with multiple directorships by demonstrating a link between these factors and enhanced corporate performance. These findings may be used by company boards and management

to make suitable decisions on the AC characteristics and governance structures to improve the company performance, notably in terms of AC independence, finance or accounting expertise and background of the AC members, AC competence, and ACC's multiple directorships. Investors may find this paper valuable in gaining a better understanding of Malaysian financial businesses' governance and in making informed investment decisions. The study results may be beneficial for regulators in other jurisdictions who are searching for methods of improving the efficacy of ACs and the overall corporate governance and investor trust. These results also give insight into financial companies' performance in the Malaysian context by highlighting the relevant fundamental theories (agency and resource dependency theories).

This study, however, has limitations. First, the scope of the study was confined to investigating the moderating impact of ACC's multiple

directorships on the connection between AC features and finance company performance among the Malaysian listed financial companies. Second, it tested only the moderating effects of ACC's multiple directorships; future research can focus on other moderating variables (e.g., internal audit mechanisms, board characteristics, risk, and remuneration committee characteristics) on the performance of finance and non-finance firms. The use of ROA in the study as a proxy for financial firm performance is likewise a limitation. Future research can use a variety of accounting and market indicators to offer a more complete picture of a company's performance. Since the current study is quantitative in nature, a qualitative approach can be utilized as an alternative methodology in which interviews with the chiefs of the audit committees can be conducted to collect data regarding the study variables.

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