AUDIT COMMITTEE CHARACTERISTICS AND SUSTAINABLE DEVELOPMENT GOALS: EVIDENCE FROM THE GULF COOPERATION COUNCIL

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Abstract

This paper provides empirical evidence on the relationship between audit committee (AC) characteristics and Sustainable Development Goals (SDGs) disclosure in 34 financial companies listed on the Muscat Stock Exchange (MSX) in Oman. Using content analysis and multiple regression analysis on a dataset from 2016 to 2020, obtaining 170 years-observations, the study assesses the attributes of corporate ACs that drive the level of SDG disclosure. The findings reveal that AC attributes such as independence, financial expertise, and overlapped directorships positively influence SDG disclosure. Conversely, the frequency of AC meetings and the proportion of foreign directors negatively affect SDG disclosure. Notably, the presence of female directors does not significantly impact SDG disclosure. These results have implications for policymakers, regulators, and practitioners seeking to enhance sustainable development practices. By understanding the role of specific AC characteristics, organisations can improve SDG reporting, bolster transparency, and advance accountability toward SDGs.

Keywords: Audit Committee Characteristics, Sustainable Development Goals, Oman, Disclosure

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1. INTRODUCTION

This research paper investigates the influence of audit committee (AC) characteristics on the adoption and implementation of Sustainable Development Goals (SDGs) in publicly traded companies within Oman's financial sector. The study focuses on various attributes of the AC, including committee size, independence, financial expertise, overlapped directorships, presence of foreign directors, and gender diversity, to examine their impact on integrating SDGs into organisational practices. By exploring the relationship between AC characteristics and the extent of SDG disclosure, this research aims to enhance our understanding of how corporate governance practices can support

sustainability efforts, ultimately improving organisational performance and value. In addition to the scholarly insights gained from this study, it offers practical implications for various stakeholders, including regulators, policymakers, and governors. The findings suggest that these stakeholders should focus on selecting AC members with specific characteristics for listed firms in order to enhance their sustainable disclosures.

Recognized as essential factors for a firm's reputation, value, and continuity (Woidtke & Yeh, 2013; Rao & Tilt, 2016), organisational sustainability practices and the quality of corporate governance have garnered significant attention. The 2008 financial crisis highlighted the vulnerability of companies with inadequate sustainability strategies and governance practices, resulting in substantial financial losses (Eyenubo et al., 2017; Al-Shaer et al., 2017; Antoncic, 2020). Despite their impact on a firm's value, non-financial aspects are often underreported in financial statements (Leung & Gray, 2016). Thus, the crisis emphasized the importance of considering intangible assets generated through sustainability practices (Trotman & Trotman, 2015; Leung & Gray, 2016; Buallay & Al-Ajmi, 2020).

For instance, intangible assets in the US account for some 84 percent of the S&P 500 market value (Antoncic, 2020). While these intangible assets do not formally appear in financial statements, non-financial risks attributed to poor sustainability strategies and governance quickly converts into substantial financial risks (Owolabi & Dada, 2011; Trotman & Trotman, 2015; Antoncic, 2020). As a result, there is growing recognition from multiple stakeholders that organisations must shift focus from short-term goals to a more long-term view of corporate sustainability for organisations to be able to uphold their "contract with society" to carry on with their corporate objectives (Clarke, 2007; Van der Laan et al., 2008; Al-Shaer et al., 2017; Antoncic, 2020; Sekarlangit & Wardhani, 2021).

Consequently, governments and regulatory bodies in many countries have encouraged organisations in both the private and public sectors to adopt the United Nation's SDGs and to measure and report on their achievement in the aftermath of the 2008 financial crisis (Rao & Tilt, 2016; Rosati & Faria, 2019; Buallay & Al-Ajmi, 2020). The member nations of the United Nations (UN) adopted the 2030 Agenda for Sustainable Development at the UN Sustainable Development Summit in 2015. It incorporates the three dimensions of sustainable development: economic, social, and environmental factors with the overall objective to end poverty, protect the planet and ensure that all people enjoy peace and prosperity by the year 2030 (Fuente et al., 2017; United Nations [UN], 2022). Building on the earlier Millennium Development Goals issued in the year 2000, the SDGs are in the form of 17 general goals and 169 specific targets. The SDGs address the full spectrum of global macro-systemic issues that affects all stakeholders, all businesses, and all countries (Leung & Gray, 2016; Fuente et al., 2017; Antoncic, 2020). Today, the implementation of SDGs by entities is used as a benchmark to judge whether an organisation meets its economic, social, and environmental commitments (Leung & Gray, 2016; Rao & Tilt, 2016; UN, 2022).

Even though diverse groups of stakeholders recognise the critical nature of sustainability practices for enhancing firms' value and ensuring corporate survival, the implementation of sustainability practices is inconsistent and widely varies among organisations (Rao & Tilt, 2016; Fuente et al., 2017). An international survey of 800 participants comprising of asset managers and asset owners highlighted this clearly. In this survey, 30 percent of respondents said that they do not have a clear sustainability strategy, while a further 46 percent said that they "somewhat" engage in sustainability practices. Only 24 percent of the participants indicated that they incorporate environmental, social, and governance principles in setting corporate strategy (Antoncic, 2020). These findings are consistent with other earlier studies (Gray & Laughlin, 2012; Fuente et al., 2017; Rao & Tilt, 2016). Many firms seem to report sustainability practices as a marketing ploy to show stakeholders that they are responsible entities that are not purely profit-driven (Habbash, 2016; Al-Shaer et al., 2017). In other words, engaging in sustainability-linked activities and its subsequent reporting is done to portray the firm as a good corporate citizen without a conscious effort to implement sustainability goals (Dawkins & Fraas, 2011; Gray & Laughlin, 2012; Amran et al., 2014; Rao & Tilt, 2016; Khaled et al., 2021). This can enable organisations to use this positive portrayal to obtain finance and access new markets that are environmentally and socially more conscious.

Given the role and significance of sustainability practices and governance in creating corporate value and ensuring business continuity, a key question that must be asked is what is the reason for the mediocre implementation of SDGs among companies? Only a relatively small proportion of companies take concrete action to implement and report on sustainability practices despite the corresponding risks to business continuity (Trotman & Trotman, 2015; Peters & Romi, 2015; Rao & Tilt, 2016; Al-Shaer & Zaman, 2019).

The answer to this question might lie in the tone set by the individual board of directors on the importance of sustainability practices for the organisation, which permeate across the entire organisation (Carcello et al., 2011; Rao & Tilt, 2016; Hu & Loh, 2018). Specifically, the uptake of sustainability practices may depend on the attributes and characteristics of the AC, which is a subcommittee of the board of directors (Hambrick & Mason, 1984; Galbreath, 2016; Eyenubo et al., 2017; Jizi, 2017). An effective AC is a fundamental component of a firm's governance mechanism that instigates the acceptance and fostering of organisational sustainability practices (Galbreath, 2016; Eyenubo et al., 2017; Al Lawati et al., 2021). The role of the AC is not only to provide oversight of the financial reporting process, but also to intervene and advise the organisation's board of directors on internal controls, compliance with laws and regulations including sustainability-related regulations, and risk management systems (Rao & Tilt, 2016; Hu & Loh, 2018). The AC has direct purview over an organisation's compliance, legal and risk management functions that directly affect the extent of implementing and reporting on sustainability practices and initiatives (Carcello et al., 2011; Hu & Loh, 2018). Thus, the characteristics

and structure of the AC may affect whether an organisation takes SDGs seriously in terms of implementation and subsequent reporting (Leung & Gray, 2016; Rao & Tilt, 2016; Jizi, 2017; Hu & Loh, 2018; Al Lawati & Hussainey, 2022).

This paper aims to explore and identify the key attributes and characteristics of ACs associated with higher adoption of the UN's SDGs in Oman, an area that has not yet been investigated. The findings of this study will contribute to a better understanding of the factors contributing to the varying levels of sustainability practices implementation among organisations in emerging markets. Given the increasing significance of sustainability in creating value and ensuring business continuity, it is important to investigate how ACs can play a role in overseeing sustainability-related matters and enhancing corporate governance (Rao & Tilt, 2016; Rosati & Faria, 2019; Sekarlangit & Wardhani, 2021). By ensuring the accuracy and reliability of both financial and non-financial information, properly constituted ACs can help meet the expectations of a broader range of stakeholders in emerging markets and promote better corporate governance practices (Jizi, 2017; Glass & Newig, 2019, Rosati & Faria, 2019; Al Lawati et al., 2021).

The rest of this paper is organised as follows. In Section 2, we present the institutional background for this research. The key literature is presented, and the hypotheses are developed in Section 3. In Section 4, we present the research methodology. Section 5 presents the empirical results. Section 6 discusses the research findings. Section 7 concludes the paper with the main findings and further research opportunities.

2. INSTITUTIONAL BACKGROUND

When the massive corporate bankruptcies embroiling Enron and WorldCom were taking place in the US, Oman's capital market too had its share of financial troubles. These ranged from large Omani companies such as National Rice Mills SAOG and Oman National Investment Holding SAOG to many smaller companies (Dry, 2003). The financial distresses in Oman were in the making for several years due to charges that many of Oman's companies "hide information", "have poor internal control" and which are compounded by mismanagement arising from "negligent and incompetent" directors (Dry, 2003, p. 45). These factors were collectively responsible for a sharp drop in share prices and the loss of investor confidence in the late 1990s and early 2000s. Recognising the damage to the capital market and Oman's reputation in the international markets, the Government of Oman attempted to address these concerns by promulgating the region's first Code of Corporate Governance in 2002 (Dry, 2003; PwC, 2016). This was further revised in 2015 and became effective on 22 July 2016 as the "New Code". The New Code prescribed in detail the key attributes and responsibilities of all boards of Muscat securities market listed companies.

The New Code for instance requires all board members to be non-executive directors. It also describes the role, skills, and competencies of board members. Additionally, it describes the requirements on the minimum number of board meetings, and the content of the minutes of these meetings. More extensive clarification is also made on the definition of "Independent Director" and "Related Party" in the New Code (PricewaterhouseCoopers [PwC], 2016). This is an important clarification due to the unique cultural environment in Oman, where the line between both concepts can be blurred due to close family and tribal connections in contrast to a Western setting.

As for ACs, the tenth principle of the New Code describes the attributes and responsibilities of the AC (Capital Market Authority [CMA], 2015). It requires the committee to have at least three non-executive members, with a majority being independent including the chairman of the committee. At least one member must be experienced in accounting and finance, and meetings are to be considered valid if most independent members are present (CMA, 2015; PwC, 2016). The AC is responsible for oversight of the company's risk management in terms of setting and reviewing company policies. The AC is also responsible for advising the board on risk management and mitigation practices. Listed companies are required to exercise corporate social responsibility (CSR) by developing a charter and subsequently reporting these in the annual report under a separate statement of social responsibility (CMA, 2015). The AC, therefore, has a direct role and responsibility to ensure that CSR practices developed and incorporated in the charter are implemented and subsequently reported. The AC has an overarching responsibility to advice the corporate board on all aspects of the New Code. These include governance, accuracy, and reliability of the company's financial reporting, external audit, risk management, and the effectiveness of internal controls over operations, financial reporting, and compliance with laws and regulations including CSR-related compliance.

3. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

3.1. Theoretical perspective and previous literature

In this section, we discuss the current literature and develop our hypotheses that AC attributes are associated with the adaption of the UN's SDGs.

The extant literature recognises the need for firms to adopt sustainability practices if they are to add value to their stakeholders and increase the likelihood of continuing operations as a going concern (Rao & Tilt, 2016; Al-Shaer & Zaman, 2019; Buallay & Al-Ajmi, 2020). The 2008 financial crisis clearly showed that companies with weak sustainability strategies had a higher risk of financial failure, leading to massive losses to multiple stakeholders (Eyenubo et al., 2017; Antoncic, 2020). In this context, adapting and reporting on sustainability goals and outcomes in the annual reports as required by the corporate governance frameworks of many countries can alleviate the risk of financial failure due to poor sustainability strategies (Owolabi & Dada, 2011; Rao & Tilt, 2016; Leung & Gray, 2016). Earlier research also shows that despite the risks of not implementing sustainability strategies, many companies do not seriously implement and report on sustainability practices (Amran et al., 2014; Rao & Tilt, 2016; Sekarlangit & Wardhani, 2021).

Researchers such as Rao and Tilt (2016), Al-Shaer and Zaman (2018), Rosati and Faria (2019), and Sekarlangit and Wardhani (2021) contend that companies are facing growing pressure from stakeholders to adapt SDGs as a systematic component in setting corporate strategy using the aims of the 2030 Agenda for Sustainable Development as an underlying framework. There is increasing expectation that companies should be more transparent and provide satisfactory information to multiple stakeholders on implementing SDGs and their resultant outcomes (Jizi, 2017; Glass & Newig, 2019; Sekarlangit & Wardhani, 2021).

A number of theories attempt to explain why companies engage in sustainable practices, even when mandatory requirements are still been developed in some countries. Agency theory, for example, explains sustainability practices in terms of the divergent motivations between principals and agents. In this context, sustainable practices are undertaken and disclosed by firms to reduce information asymmetry between management and stakeholders to enhance shareholder value (Alotaibi & Hussainey, 2016; Khaled et al., 2021).

Other theories also attempt to explain corporate sustainability practices. Stakeholder theory explains sustainability practices as undertaken by companies to meet the needs of the company's various stakeholders (Fatemi et al., 2018; Phillips & Reichart, 2000; Sekarlangit & Wardhani, 2021). In contrast, while legitimacy theory explains sustainability practices as a company's attempt to seek validity for its corporate actions (Suchman, 1995; Branco & Rodrigues, 2006; Mahadeo et al., 2011; Jizi et al., 2014), institutional theory explains sustainability practices as an organisation's attempt to seek acceptance and validity amidst various institutional pressures and expectations (Glover et al., 2014; Ebrahimi & Koh, 2021). Rather than promoting the superiority of any of the prior theories, Azizul Islam and Deegan (2008) advocate that corporate sustainability practices arise from a combination of all three former theories and should not be regarded in isolation to obtain a better understanding of the underlying motivations. This view is also consistent with the widely cited work of Gray et al. (1995).

Despite the intensifying stakeholder pressure on companies to report on sustainability practices, the continuing imbalance among firms reporting on sustainability outcomes and those who do not may be due to various firm-specific aspects and characteristics of the AC (Rao & Tilt, 2016; Al-Shaer et al., 2017). For instance, while a firm's level of profitability, size, and leverage may impact the level of sustainable practices adopted by a firm (Reverte, 2009; Giannarakis, 2014; Khaled et al., 2021), the key factor may be the individual characteristics of the AC, whose commitment to SDGs will permeate across the entire organisation (Pomeroy & Thornton, 2008; Al-Shaer et al., 2015; Rao & Tilt, 2016; Buallay & Al-Ajmi, 2020). An effective AC improves corporate disclosure quality of both voluntary and non-voluntary information that includes sustainable practices (Vafeas, 2005; Karamanou & Vafeas, 2005; Pomeroy & Thornton, 2008; Eyenubo et al., 2017). Prior research has found that the effectiveness of ACs impacts the extent of corporate disclosures, and this is dependent on the AC's specific attributes (Dhaliwal et al., 2010; Li et al., 2012; Serkarlangit & Wardhani, 2021). We, therefore, propose specific hypotheses in the following sections to examine the association between an efficient AC and the adaption of corporate sustainability practices.

3.2. Hypotheses development

3.2.1. AC size

As the AC size increases, it can be argued that monitoring quality also increases as the pool of knowledge and experience within the committee increases (Kesner & Johnson, 1990; Bédard & Gendron, 2010; Al Lawati et al., 2021). This is argued to result in a more effective AC, which translates into an increase in the quality of disclosed information (Hoitash & Hoitash, 2009; Siregar & Bachtiar, 2010). Although Said et al. (2009) found that a larger AC is less effective due to a wider range of views and motives that exists in a large committee, the consensus is that a larger AC results in higher quality disclosures. This is because a larger AC is likely to include members aligned with the needs of a wider group of stakeholders and are therefore more perceptive to the information and disclosure needs of these stakeholders including sustainability-related disclosures (Kesner & Johnson, 1990; Pfeffer & Salancik, 2003; Siregar & Bachtiar, 2010; Al-Shaer et al., 2017). Thus, we formulate our first hypothesis as:

H1: AC size is positively associated with SDG adoption.

3.2.2. AC meetings

The number of times the AC meets in a year is a proxy for AC effectiveness (DeZoort et al., 2002; Sekarlangit & Wardhani, 2021). AC meeting frequency has been found to affect not only the content of corporate reports, but also their timeliness, integrity, and transparency (Stewart & Munro, 2007; Rao & Tilt, 2016). Meeting frequency is a representation of the effort, resources, and time the AC has spent on deliberating a wide range of governance tasks including those associated with corporate sustainability (DeZoort et al., 2002; Hu & Loh, 2018), and is found to be associated with greater levels of voluntary disclosure (Zaman et al., 2011; Liu et al., 2022). We, therefore, formulate our second hypothesis as:

H2: AC meeting frequency is positively associated with SDG adoption.

3.2.3. AC independent directors

The protection of shareholders' interests is recognised as a key function of the board of directors (Fama & Jensen, 1983; Pomeroy & Thornton, 2008). A key to achieving this objective is to have a larger pool of independent directors in the board and AC who can guide the board's governance decisions, including those that are related to reporting non-financial information (Baxter & Cotter, 2009; Rao & Tilt, 2016; Buallay & Al-Ajmi, 2020). According to Rao et al. (2012), independent directors are better able to encourage a longer-term view of corporate strategies and decisions by considering the company's economic, environmental, and social sustainability. This is

because independent directors are not significantly linked with the organisation to promote short-term monetary goals at the expense of considerable environmental and social costs (Pomeroy & Thornton, 2008; Buallay & Al-Ajmi, 2020). The updated corporate governance code in Oman also recognises the need for independent directors as an underlying factor in good governance and requires that the majority of the AC must comprise of independent members (PwC, 2016). Based on the foregoing, we formulate our third hypothesis:

H3: AC independence is positively associated with SDG adoption.

3.2.4. AC with financial expertise

Financial expertise is an important attribute of an effective AC (Kent et al., 2010; Al Lawati et al., 2021). Having financial expertise allows the AC to appropriately advice the board on the monetary impact of a company's environmental and social footprint (Fuente et al., 2017; Mahmood & Orazalin, 2017). For instance, the AC may ensure that disclosures are made in the corporate reports with regard to potential legal liability for not implementing environmental regulations or advise the management to implement specific SDGs to mitigate penalties (Mangena & Pike, 2005; Amran et al., 2014; Rao & Tilt, 2016). We, therefore, formulate our fourth hypothesis as follows:

H4: AC financial expertise is positively associated with SDG adoption.

3.2.5. AC with overlapped directors

The effect of AC members serving on multiple company committees has been researched from a tax avoidance perspective (Al Lawati & Husseiney, 2021). The general finding is that firms with overlapped AC directors pay less corporate tax. According to Al Lawati and Husseiney (in press), overlapped directors will enhance the scope of the AC's overseeing role as they have a more complete understanding of the company. Although it is recognised that the "busyness" of the AC directors due to serving on multiple boards may have a detrimental effect on disclosure, recent research shows a positive relationship between overlapped AC chairs and corporate voluntary disclosures (Furqaan et al. 2019; Al Lawati & Hussainey, 2020; Al Lawati & Hussainey, 2021; Alhossini et al., 2021). It is conceivable that having overlapped AC directors may increase the level of SDG reporting due to having a better understanding of the company's activities and the information needs of diverse stakeholders. We, therefore, formulate our fifth hypothesis:

H5: AC director overlap is positively associated with SDG adoption.

3.2.6. Female directors in the AC

Prior research has found that gender diversity in the form of greater female representation on the board increases the level of environmentally friendly strategies (Glass et al., 2016; Jizi, 2017). This may be due to female directors being more mindful of the environment and sustainability issues compared to their male counterparts (Isidro & Sobral, 2015; Al Shaer & Zaman, 2016). Rosati and Faria (2019) further purport that a larger percentage of female members on the board can affect AC effectiveness. This is because female directors can incorporate new issues and viewpoints different from their male counterparts. Based on these findings, we formulate our sixth hypothesis:

H6: The proportion of female directors in the AC is positively associated with SDG adoption.

3.2.7. Foreign directors in the AC

Several prior research studies indicate that foreign directors on the board are associated with a higher degree of sustainability reporting (Haniffa & Cooke, 2005; Ntim & Soobaroyen, 2013). Perhaps this reflects foreign directors' prior exposure in more environmentally conscious jurisdictions that informs and affects judgements in the new board (Hu & Loh, 2018; Sekarlangit & Wardhani, 2021). To examine whether foreign members influence corporate sustainability practices in Oman, we formulate our last hypothesis:

H7: The proportion of foreign directors in the AC is positively associated with SDG adoption.

4. RESEARCH METHODOLOGY

4.1. Sample selection

To test our hypotheses, we use data for financial publicly traded companies on the Omani capital market covering the period of 2016–2020, obtaining 170 years-observations for (on average, 34 companies for each year). We obtain data about the AC characteristics and SDGs variables from annual reports and data about firm characteristics and other control variables from Bloomberg and financial statements. We select the above-mentioned period to investigate the period after SDGs adoption in Oman.

Our study includes a diverse sample of organisations operating within the financial sector, encompassing banks, insurance companies, financial services, investment firms, and real estate companies. Table 1 provides an overview of the distribution of capital shares within each sub-sector, representing their respective contributions to the overall financial sector within the Muscat Stock Exchange (MSX) market.

Table 1. Distribution of the financial sub-sector

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

We examined financial companies due to heavy regulations which have been imposed on them by the Central Bank of Oman and the Capital Market Authority (CMA). Financial companies are also mandated to integrate the essential updates after Oman's participation in the UN summit in 2015. Following prior studies conducted in Oman such as Al Lawati and Hussainey (2022), Al Lawati et al., (2021), and Al Lawati and Hussainey (in press), a textual analysis method is utilised to measure SDG variables.

4.2. Regression model

Following prior studies on SDGs such as Al Lawati and Hussainey (2022), we apply ordinary least squares (OLS) regression to examine our main hypotheses.

The following regression model is constructed to examine the association between AC characteristics and SDGs adoption:

$$SDGs\ Adoption = \alpha + \beta_1 ACSize + \beta_2 ACMeet + \beta_3 ACInd + \beta_4 ACFin + \beta_5 OvAC + \beta_6 ACFem + \beta_7 ACFor + \beta_8 LogAsset + \beta_9 LEV + \beta_{10} ROE + \beta_{11} Big4 + Industry\ fixed\ effect + Year\ fixed\ effect + \varepsilon \quad (1)$$

where:

- *SDGs Adoption* refers to the measurement of SDGs information in a firm's annual report;
- *ACSize* refers to the number of AC members;
- *ACMeet* refers to the annual number of meetings conducted by AC;
- *ACInd* refers to the percentage of independent directors on AC;
- *ACFin* refers to the percentage of AC members with financial expertise;
- *OvAC* refers to the proportion of AC members who are also serving on other committees within a company;
- *ACFem* refers to the proportion of female directors on AC;
- *ACFor* refers to the percentage of foreign directors on AC;
- *LogAsset* refers to the firm size;
- *LEV* refers to the leverage of the firm;
- *ROE* refers to the firm profitability;
- *Big4* takes the value of 1 if the company is audited by one of the Big 4 auditors, 0 otherwise.

The variable measurement and abbreviations are explained in Table 2.

4.3. Variable measurement and definitions

4.3.1. Dependent variable

We follow Al Lawati and Hussainey (2022) in examining SDGs disclosure in the annual reports. Two measurements of SDG adoption have been utilised, which are: "Overall SDG" and "Total SDG". *Overall SDG* is a binary variable that indicates whether the firm refers to the SDGs in its annual report or not by using specific words of "SDG", "SDGs", or "global goal" or the occurrence of "sustainable" and "development" and "goal" within a window of five words to measure the existence of any reference to SDGs in the annual reports. *Total SDG* is the quantitative measure of SDGs. This variable is used to examine the existence of different topics of SDGs in the annual reports. Following Hummel and Szekely (2022) and Al Lawati and Hussainey (2022) a bag of words has been used following to measure the said variable and for each single SDG, a score of 1 is given based on their existence, 0 otherwise. This process would end up having a maximum of 17 scores or less depending on the company's engagement in the SDGs adoption.

4.3.2. Independent variables

Following prior voluntary disclosure literature (e.g., Al Lawati et al., 2021), we have selected our independent variables, which are AC characteristics that consist of AC size, AC meetings, independent AC members, the proportion of overlapped AC directors, the percentage of AC directors with financial expertise, and the existence of female and foreign AC directors.

4.3.3. Control variables

Following prior voluntary disclosure literature such as Al Lawati and Hussainey (in press), Sekarlangit and Wardhani (2021), Al Lawati et al. (2021), and Al Lawati and Alshabibi (2023), a set of control variables have been included in the regression model due to their possibility of effectiveness on the company's engagement in SDGs initiatives. These variables are the company's performance, company's size, leverage, and auditor quality. In addition, we include the industry and year fixed effect variables to control for any impact they could have in the study sample period.

Table 2. Variables definitions and measurements

Variable	*Abbreviation*	*Measurement*
SDG disclosure (1)	*Overall SDG*	Is a dummy variable, which is equal to 1 if the corporation refers to the SDGs in its annual report, 0 otherwise
SDG disclosure (2)	*Total SDG*	Is a quantitative measure, a score of 1 is given to each SDG goal, which could total to have a max of 17 points
AC size	*ACSize*	Refers to the number of AC members
AC meetings	*ACMeet*	Refers to the annual number of meetings conducted by AC
Overlapped AC directors	*OvAC*	Refers to the proportion of AC members who are also serving on other committees within a company
AC directors with financial expertise	*ACFin*	Refers to the percentage of AC directors with financial expertise
AC independent directors	*ACInd*	Percentage of independent directors on AC
Female directors	*ACFem*	Percentage of AC female directors
Foreign directors	*ACFor*	Percentage of AC foreign directors
Firm size	*LogAsset*	Refers to the firm size measured as a natural logarithm of total assets
Firm performance	*ROE*	Refers to the firm profitability, measured as return on equity
Firm leverage	*LEV*	Refers to the leverage of the firm, measured as the ratio of total debt to total assets
Auditor quality	*Big4*	Takes the value of 1 if the company's financial statements are audited by one of the Big 4 external auditors, 0 otherwise
Industry and year fixed effect	*Year & Industry effect*	Dummy variables are created to control for a year and industry effects

5. EMPIRICAL RESULTS

5.1. Descriptive statistics

Table 3 provides the descriptive statistics analysis. It shows that the mean value of *Overall SDG* is 0.06 with a minimum of 0 and maximum of 1, and *Total SDG*'s mean is 4 with a maximum of 15 and minimum of 0. The result is consistent with Al Lawati and Hussainey's (2022) study in Oman. The mean value of AC characteristics are as follows: *ACSize* (3.38), *ACInd* (0.75), *ACFem* (0.024), *ACFor* (0.33), *OvAC* (0.33), *ACMeet* (5.04), and *ACFin* (0.75). Table 3 provides the descriptive statistics of the control variables of the study.

Table 3. Descriptive statistics

Variable	*Obs.*	*Mean*	*Std. Dev.*	*Min*	*Max*
Total SDG	170	4.02	4.53	0.00	15.00
Overall SDG	170	0.06	0.24	0.00	1.00
ACSize	170	3.38	0.56	3.00	5.00
ACMeet	170	5.04	1.78	0.00	12.00
ACInd	170	0.75	0.19	0.00	1.00
ACFem	170	0.02	0.08	0.00	0.33
ACFor	170	0.33	0.32	0.00	1.00
ACFin	170	0.75	0.26	0.25	1.00
OvAC	170	0.33	0.30	0.00	1.00
LogAsset	170	2.13	0.89	0.48	4.09
ROE	170	5.17	10.53	-41.58	22.00
LEV	170	17.26	22.78	0.00	69.58
Big4	170	0.91	0.28	0.00	1.00

5.2. Correlation analysis

Table 4 shows the correlation analysis of the study sample. It has been shown that the sample is free from multicollinearity problems as all the correlation coefficients are below the concerned level of 0.8 (Gujarati & Porter, 2009). Also, the variance inflation factors (VIFs) values are below 10, which confirms the nonexistence of multicollinearity issues within the study sample.

Table 4 shows that SDGs have a positive and statistically significant correlation with AC financial expertise (confidence level of 95%), overlapped AC directors (confidence level of 95%), AC size (confidence level of 90%), AC meeting (confidence level of 90%) and AC independent directors (confidence level of 90%). However, SDGs are negatively and significantly correlated with foreign AC directors at the confidence level of 95%.

Table 4. Correlation analysis

Variable	*1*	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*	*11*	*12*	*13*
Total SDG	1												
Overall SDG	0.4312*	1											
ACSize	0.1503	0.008	1										
ACMeet	0.1406	-0.0482	0.0499	1									
ACInd	0.0167	0.1374	-0.0395	0.04	1								
ACFem	-0.0604	-0.0713	-0.0682	-0.094	0.0091	1							
ACFor	0.0555	-0.1755*	0.044	0.0731	-0.037	-0.1696*	1						
ACFin	0.4159*	0.2113*	0.0333	-0.0011	-0.0753	0.1951*	0.0095	1					
OvAC	0.3070*	0.1452	-0.0534	0.1800*	-0.1283	-0.2206*	0.1319	0.0181	1				
LogAsset	0.7148*	0.3431*	0.0341	0.2974*	-0.071	-0.037	0.0487	0.3026*	0.1972*	1			
ROE	0.2808*	0.0383	0.1451	0.1421	-0.0074	0.0569	0.1592*	0.2484*	0.0916	0.1718*	1		
LEV	0.0029	-0.1045	-0.0257	-0.0694	-0.0291	0.0673	0.0993	0.1205	-0.1947*	0.1237	-0.1139	1	
Big4	0.2494*	0.0778	0.0275	0.0892	-0.2024*	0.0888	-0.0417	0.1492	0.0182	0.3230*	0.0972	0.2021*	1

5.3. Regression analysis

Table 5 presents the results of the multivariate regression using the OLS estimator as a baseline model in investigating the association between SDG variables and AC characteristics in the context of Oman. Model 1 examines the influence of AC characteristics on *Total SDG*, while Model 2 examines the impact on *Overall SDG*. Both models are significant with Prob > F values less than 0.01 and R-squared of 74% and 26%, respectively.

Table 5. Regression analysis

Total SDG (Model 1)			*Overall SDG (Model 2)*		
Variable	***Coefficient***	***P > t***	***Variable***	***Coefficient***	***P > t***
ACSize	1.069597***	0.003	*ACSize*	0.0059515	0.841
ACMeet	-0.1434834	0.229	*ACMeet*	-0.0249019***	0.012
ACInd	2.246708**	0.034	*ACInd*	0.2333758***	0.008
ACFin	3.932599***	0	*ACFin*	0.1432427**	0.042
OvAC	2.458726***	0.002	*OvAC*	0.08363	0.157
ACFem	-0.8424867	0.736	*ACFem*	-0.3027965	0.149
ACFor	0.9923003	0.149	*ACFor*	-0.1399257***	0.01
LogAsset	3.311721***	0	*LogAsset*	0.0959096***	0
ROE	0.045647	0.380	*ROE*	-0.0006368	0.703
LEV	-0.0918587***	0	*LEV*	-0.0014149*	0.067
Big4	1.601075**	0.033	*Big4*	0.0183176	0.77
_cons	-7.938774	0.003	_cons	-0.2872282	0.06
Industry effect	Yes		Industry effect	Yes	
Years effect	Yes		Years effect	Yes	
No. of obs.	170		No. of obs.	170	
Prob > F	0		Prob > F	0	
R-squared	0.7352		R-squared	0.2639	

5.3.1. AC size

The result shows that the coefficient for *Total SDG* is positive and significant with AC size at the 0.01 level with no impact on *Overall SDG*. Hence, *H1* is partially accepted. The result is in line with resource dependence theory and with prior literature such as (Al Lawati et al., 2021; Buallay & Al-Ajmi, 2020; Raimo et al., 2021). Big groups share different resources in terms of expertise, budgets, networks, and relations which could affect positively the firm's ability to engage more in sustainability initiatives and satisfy society's needs.

5.3.2. AC meeting

The finding indicates that AC meeting has a negative and significant impact on *Overall SDG* at the 0.01 level with no influence on *Total SDG*. Therefore, *H2* is rejected. The result is inconsistent with agency theory and with previous studies such as Buallay and Al-Ajmi (2020). This could be because these directors are overcommitted with different agenda items that do not relate to sustainable disclosures. They aim to resolve directors' conflicts such as third-party transactions. Also, they serve as monitoring and auditing bodies to audit the financial statements to make sure that they are free from mistakes, which in front gives less time to transparency and disclosure items. Regulators need to involve more and monitor the way of conducting these meetings.

5.3.3. AC independent directors

The analysis shows that AC independent directors affect positively SDG disclosures at the significant level of 0.05 in Model 1 and 0.01 in Model 2. Hence, *H3* is accepted. The results are consistent with agency theory and with prior studies which confirm that AC directors serve as a monitoring body and encourage a transparent environment. This will motivate companies to engage in sustainability initiatives to spread out the positive impact on society and satisfy stakeholders' needs which will enhance the reputation of the firms.

5.3.4. AC directors with financial expertise

The paper finds that AC directors with financial expertise have a positive influence on SDG disclosure at the significant level of 0.01 in Model 1 and 0.05 in Model 2. *H4* is accepted. This is because directors with financial expertise allow the AC to appropriately advice the board on the monetary impact of a company's environmental and social footprint. They could advice the board to engage in specific sustainable initiatives to avoid any possibility of penalties that could occur.

5.3.5. Overlapped AC directors

The study shows that there is a positive and significant impact of overlapped AC directors on *Total SDG* disclosure at the significant level of 0.01, while the coefficient of *Overall SDG* does not show any significant association. Therefore, *H5* is partially accepted. The result indicates that these directors since they are serving on multiple committees within the company are more likely to be able to assist the boards to disclose and engage in many sustainable initiatives. This is due to knowledge spillover, wider resources, channel networks, and expertise they obtain. The finding is consistent with resource dependence theory and with prior studies' results (Al Lawati & Hussainey, in press). AC in Oman needs to have many overlapped directors due to the positive influence on sustainability reporting, which will enhance the investment opportunities in the firms and will improve the market's confidence by taking good decisions.

5.3.6. AC female directors

The results show an insignificant impact of AC female directors on SDG disclosure, hence, *H6* is rejected. This could be due to the small number of female directors serving on AC in Omani financial companies. The regulators need to encourage the companies to assign more female directors to AC due to the positive impact they play on financial reporting based on prior literature.

5.3.7. AC foreign directors

We find that foreign directors have a negative and significant impact on SDG adoption at the 0.01 level in Model 2. Therefore, *H7* is rejected. The result is consistent with Al Lawati et al. (2021) findings in Oman. This could be due to their lack of awareness of the Omani system and the main point of assigning them is to help the companies in enhancing their financial performance rather than engaging in sustainability non-profit initiatives. The board should conduct a cost-benefit analysis of hiring foreign members in order to achieve the best possible outcomes for the company as a whole.

5.3.8. Control variables

Our findings show that company size (*LogAsset*) and auditor quality have a positive impact on SDG adoption at the confidence level of 99% and 95%, respectively in Model 1. The results indicate that big and large companies which are audited by Big 4 firms are releasing and engaging more in sustainability initiatives to satisfy different stakeholders' needs and to achieve a good reputation in the market and within their society.

However, a negative effect has been shown between the leverage ratio and *Total SDG* at the significant level of 0.01. This implies that companies with high levels of debt are not concentrating on engaging and disclosing high levels of sustainability initiatives as they are more focused on solvency-related issues and ways of repaying.

6. DISCUSSION OF THE RESULTS

The study aimed to examine the relationship between AC characteristics and SDG disclosure in financial companies listed on the MSX in Oman. The findings of this study provide valuable insights into the impact of specific AC attributes on SDG disclosure and have practical implications for stakeholders involved in enhancing sustainable development practices.

This study provides useful insights into the association between AC characteristics and SDG disclosure in Omani financial companies. The findings emphasize the importance of AC size, independent directors, overlapped AC directors, and directors with financial expertise in driving SDG disclosure. However, the impact of AC meetings on sustainability reporting needs to be further examined. These results have practical implications for policymakers, regulators, and practitioners aiming to enhance sustainable development practices.

By considering the attributes highlighted in the study, such as independence, financial expertise, and overlapped directorships, regulators and policymakers can encourage the appointment of AC members who are more likely to positively influence SDG disclosure. This proactive approach can contribute to fostering transparency, accountability, and sustainable development practices within organisations.

Furthermore, the implications of the study extend to governance bodies, such as boards of directors, who play a crucial role in overseeing AC member selection. By prioritising the identified characteristics during the appointment process, governance bodies can ensure that AC members possess the necessary attributes to drive SDG disclosure effectively.

Overall, the practical implications derived from this study provide actionable guidance to stakeholders involved in shaping corporate governance practices. By focusing on the selection of AC members with specific characteristics, these stakeholders can contribute to enhancing sustainable disclosures and aligning organisations with broader sustainability goals.

7. CONCLUSION

This study investigates the impact of AC characteristics on SDG disclosure in the context of Oman. The study utilised a textual analysis in measuring the SDG variables following Al Lawati and Hussainey's (2022) study. Using a sample of Omani financial companies listed on the MSX market from 2016 to 2020, the results show that AC size, AC independent directors, AC financial expertise, and overlapped AC directors have a positive and significant impact on SDG adoption in Omani financial companies. On the other hand, there was a negative influence of AC meeting frequency and AC foreign directors on SDG adoption.

The findings of this study have important implications for companies who need to update their approach towards more engagement in SDG reporting by enhancing the corporation's corporate governance level and set high standards on AC characteristics as AC is considered the "keystone" of corporate financial governance. Policymakers and regulators need to understand this by imposing further regulation on corporate governance, this will lead to a high level of engagement in sustainability disclosure. This will have a positive impact on all earth beings and automatically will reduce environmental damages, which would result in a win-win relationship between corporations and society as it will increase companies' sustainability performance (Al Lawati & Hussainey, 2022).

This study has a few limitations which offer opportunities for future research. First, the study examined financial firms in the context of Oman. Further research could examine different contexts where the governance of sustainability reporting is different. Second, future research can shed light on the difference between financial and non-financial firms and assess how specific provisions would impact corporations' SDGs reporting. Third, qualitative methods could be integrated such as surveys or questionnaires, to get more insights into the factors that could drive sustainability reporting in the Omani context. Finally, additional theories could be used to have more insights into the findings' analysis and what important factors that could drive SDG disclosure.

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