IJEMS | SCIENTIFIC ARTICLE

The Impact of the Audit Committee on Financial Performance in Moroccan SMES: An Empirical Examination

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This study investigates the impact of audit committees on the financial performance of Moroccan SMES, emphasizing the significance of context and its added value. Additionally, it examines the governance system's influence on audit committee independence and explores variables related to audit committee characteristics. Drawing from a sample of 58 Moroccan SMES, the study spans a 4-year period from 2018 to 2022. Through the utilization of regression analysis, findings reveal challenges to the audit committee's total independence, attributed to a dual system and limited committee size. Consequently, Moroccan SMES audit committees face constraints in fulfilling their responsibilities, particularly in financial statement review, potentially impeding SMES financial performance and growth. This research contributes to the understanding of governance dynamics within Moroccan SMES, highlighting the importance of context and offering insights into the complexities of audit committees.

Key Words: audit committee, financial performance, Moroccan SMES, audit quality

https://doi.org/10.70908/2232-6022/17.283-312

INTRODUCTION

In recent times, financial authorities and specialists have focused their emphasis on auditing as one of the greatest corporate governance measures. The management and financial tools that companies employ to keep an eye on top management in order to protect stakeholder and owner investments and draw in further foreign capital are all included in auditing (Ghazali 2010; Rustam and Rashid 2013). Put differently, there is a prevalent assertion that the oversight function of audit committees plays a crucial part in corporate governance, helping in the regulation and observation of managers' actions (Turetken, Jethefer, and Ozkan 2020). Additionally, it's thought that audit committees can enhance financial reporting quality and lower audit risk, which will enhance reported profits quality (Contessotto and Moroney 2014).

According to these assertions, audit committees are crucial to regulating and supervising a business's management in order to protect the owners' assets and interests (Kallamu and Saat 2015). The selection and replacement of external auditors is one of the audit committees' main duties and responsibilities. Their responsibilities are broader and include reviewing the internal control system of the business and keeping an eye on management (Aldamen et al. 2012). The number, independence, and level of experience or knowledge possessed by audit committee members are all crucial components of the committee's efficacy. Numerous studies have suggested that having these kinds of qualities on the audit committee improves its efficacy, which in turn improves the organization's performance (Carcello and Neal 2005; Rustam and Rashid 2013).

Numerous studies have been carried out to empirically evaluate the impact of audit committee characteristics on organizational performance, based on the assumption that these characteristics have a significant impact (Mohammed 2018; Amer, Ragab, and Shehata 2014; Al-Matari 2013). While some studies have established a favorable association between the qualities of the audit committee and organizational performance, others have not, despite the fact that the relationship is considerable. Consequently, the relationship is still unclear and continues to pique the interest of scholars.

The audit committee's role in Moroccan SMES is crucial for validating financial and accounting records produced by internal audits. Often, the involvement of directors with vested interests complicates transparency and objectivity in financial reporting, necessitating more rigorous internal audit mechanisms (Musallam 2020). The complexity is further exacerbated by information asymmetry and heightened default risks, highlighting the need for effective audit committees.

This study aims to assess the impact of audit committees on the financial performance of Moroccan SMES. By examining the role of audit committees through the lens of contractual finance theories, including property rights, agency, and transaction cost theories, we seek to elucidate the relationship between internal audit and corporate governance in Moroccan SMES.

In the framework of this research, it seemed essential to establish an audit committee in Moroccan SMES in order to authenticate the financial and accounting records established by the internal audit. Due to the fact that the director, who is often the owner, attempted to distort facts that may have allowed him to gain a more lucrative advantage, it was impossible to know about it beforehand. It seems to be the case when Julien, Blili, and Chicha (1997, 215) noted that 'not only the accruing default risk but also and especially the information asymmetry and the opportunity risks, more elevated in SME, lead the banks to demand more guarantees and increase the costs of the loan.'

In this sense, the research's central question is posed as follows: What effects do the audit committee have on the financial performance of Moroccan SMES?

In this context, it is advisable to interpret, in accordance with the literature, the role of the audit committee through perfomance theories. The theories of profit maximization, agency, and Resource-Based View describe different perspectives on how audit committees can enhance organizational performance and governance (Smith 1776; Jensen and Meckling 1976; Barney 1991). Profit maximization theory focuses on aligning audit committee actions with maximizing shareholder wealth through effective financial oversight. Agency theory emphasizes monitoring and mitigating conflicts of interest between managers and shareholders, ensuring accountability and transparency. Resource-Based View theory suggests that audit committees should leverage internal resources and capabilities to improve strategic decision-making and sustainable competitive advantage. Integrating these theories provides a comprehensive framework for understanding the multifaceted role of audit committees in organizational success.

Our research methodology is based on a positivist positionnement that is employed to satisfy the requirements of our research work. In order to accomplish our goal, a hypothetically deductive approach has been taken.

Furthermore, the structure is as follows: the second section comprises theoretical background, literature review and hypotheses development. The third section explains the research methodology, including the empirical study's approach and data analysis. The fourth section presents the results of the study derived from descriptive statistics and regression analyses. The fifth section offers a discussion of the findings and implications, while the sixth section contains concluding remarks and suggestions for further research.

LITERATURE REVIEW AND DEVELOPMENT OF HYPOTHESES

Based on the evolving theoretical discourse surrounding audit committees and their impact on financial performance, it becomes evident from the literature that defining their precise function remains a challenge within the realm of management sciences. This challenge stems from the multidisciplinary nature of audit committee roles, which draw from diverse fields to explain their critical role in enhancing corporate growth. Amidst varying perceptions, substantial discrepancies emerge when considering the array of financial theories that attempt to delineate the internal audit function's strategic significance and its direct influence on financial performance. Researchers encounter significant challenges in delineating the comprehensive impact of audit committees on financial performance, given their dual mandate of ensuring financial probity and bolstering overall company effectiveness.

Overview of the Regulatory Framework for the Audit Committee in Morocco

The regulatory landscape governing the audit committee practices in Morocco is multifaceted and subject to various legal and governance provisions. The Moroccan Code of Corporate Governance Practice[1] advises organizations to establish specialized committees, including audit committees, to enhance governance structures. These committees are entrusted with responsibilities such as overseeing financial reporting integrity, assessing risk management processes, and providing recommendations for improving management effectiveness.

However, the audit committee, as outlined in the governance recommendations, is required to comprise non-executive members or experts with expertise in accounting and finance. Its mandate includes

[1] Moroccan Code of Corporate Governance Practices for Companies and Public Institutions was developed and launched by the National Commission for Corporate Governance in March 2008; this Commission also created and launched specific appendices for small and medium-sized enterprises (SMES) in December 2008.

convening meetings regularly to review internal and external audit reports, ensuring the integrity of financial information, and actively participating in the selection of auditors or statutory auditors.

In the realm of Moroccan governance, Ministerial Decree No. 1549-05 of December 20, 2005[2] establishes the requisite management instruments for private companies subject to accompanying control. This decree mandates the establishment of internal audit departments within organizations deemed significant enough, emphasizing the crucial role of internal audit in ensuring compliance with policies, management rules, procedures, and laws. Specifically, Article 17 of Law No. 69-00[3] outlines the obligations for organizations to facilitate internal audit functions, including providing necessary information and enabling the conduct of various control activities. The decree underscores the importance of internal audit as a cornerstone of governance and control mechanisms within Moroccan private companies, reinforcing principles of transparency, accountability, and regulatory adherence.

Furthermore, the audit committee plays an integral role in Moroccan corporate governance. It is tasked with overseeing the internal audit process and ensuring the effectiveness of internal controls. The audit committee is responsible for reviewing the internal audit reports and recommendations, thus acting as a critical link between the auditors and the management board. This committee's functions extend to supervising financial reporting and ensuring the independence and objectivity of external auditors. By fulfilling these duties, the audit committee helps in mitigating risks and enhancing the overall governance framework within Moroccan companies, thereby bolstering investor confidence and safeguarding stakeholder interests.

In this section, we examined the relevant laws, regulations, codes, and circulars governing the audit committee in Morocco. These include legal frameworks related to financial control, public procurement, corporate governance, and internal control in financial institutions. By exploring these regulatory documents, we gain a deeper understanding of the legal obligations and standards that shape internal audit operations

[2] Minister of Finance and Privatization Order No. 1549-05 of 20 December 2005, establishing the management instruments for eligible public institutions subject to accompanying control.

[3] Law No. 69-00 of 11 November 2003 concerning the financial control of the State over public enterprises and other organizations).

in Morocco. Overall, this overview underscores the significance of the regulatory framework in shaping internal audit practices within Moroccan organizations. It highlights the importance of compliance with legal requirements and adherence to governance guidelines to ensure

the effectiveness and integrity of internal audit processes.

Global Performance

Performance has long been reduced to its financial aspect. This performance involved achieving the desired rentability for the investors while maintaining the company's sustainability with the sales and marketshare. However, over the past few years, we have conceptually moved away from a financial representation of success toward more comprehensive approaches that take into account social and environmental factors. Other actors – referred to as stakeholders – have made their appearance, and the concept of performance has seen a resurgence in use (Aboushady 2022)

Currently, the durability of businesses depends not only on the financial aspect of their operations but also on how they function. As a result, the scope of an organization's responsibility expands to include more stakeholders (associations, NGOs, syndicates, clients, suppliers, etc.). These new actors demand to be heard, and the effectiveness and longevity of businesses depend on their ability to do so (Amer and Selwaness 2022). The notion of global performance first appears in this context.

Enterprise performance is a key concept in management sciences. Numerous researchers have been working to define it since the 1980s (Bouquin 1986; Bescos et al. 1993). And more recently, this idea has been used in managerial literature to assess how well the company has implemented its announced sustainable development strategies (Capron and Quairel-Lanoizelee 2006).

Performance has always been an ambiguous concept in the business world, as it is rarely explicitly defined. We will return to Bourguignon's (2000) definition explain the performance since it combines the three senses listed above and explicitly acknowledges its polysemous character. Therefore, performance can be defined as 'achieving organizational goals, regardless of the type or variety of those goals. This accomplishment can be understood in two ways: strictly (as a result or an outcome), or broadly (as the process leading to the result or an action)' (p. 934).

According to Lebas (1995), performance only exists if it can be measured, and this measurement can never be restricted to the knowledge of a result. Therefore, the results achieved are evaluated by comparing them to the desired results or to test results (Bouquin 2004).

Theories on Performance and Theoretical Foundations

The study of performance has evolved significantly over the years, encompassing various dimensions beyond mere financial metrics. Several theoretical frameworks have been developed to understand and measure organizational performance comprehensively. This section delves into some of the prominent theories on performance, highlighting their core principles and implications for modern businesses.

Triple Bottom Line (TBL) Theory

The Triple Bottom Line (TBL) theory, introduced by John Elkington in 1994, argues that companies should commit to focusing on social and environmental concerns just as they do on profits. TBL expands the traditional financial performance framework to include three dimensions: people, planet, and profit.

The 'people' dimension covers social performance aspects such as fair labor practices, community engagement, and societal benefits. The 'planet' dimension focuses on environmental performance, emphasizing sustainable resource use, reducing carbon footprints, and environmental stewardship. Lastly, the 'profit' dimension still considers economic performance, including financial profitability and economic growth (Willard 2012). TBL shifts the focus from financial performance alone to a broader spectrum of corporate responsibility, emphasizing that long-term business success depends on a balanced approach that respects social and environmental imperatives alongside economic goals.

Stakeholder Theory

Proposed by R. Edward Freeman, stakeholder theory posits that businesses should create value for all stakeholders, not just shareholders. This theory broadens the definition of performance to include both internal and external stakeholders (Freeman and al. 2010). Internal stakeholders encompass employees, managers, and owners, while external stakeholders include customers, suppliers, community members, and even the environment. Stakeholder theory suggests that understanding and addressing the needs and expectations of all these groups is crucial for achieving sustainable performance (Stieb 2009). It highlights the importance of dialogue and engagement with diverse groups to ensure their interests are considered in decision-making processes.

Balanced Scorecard (BSC)

Developed by Robert S. Kaplan and David P. Norton in 1992, the Balanced Scorecard (BSC) provides a framework for measuring performance from four perspectives: financial, customer, internal processes, and learning and growth (Kaplan and Norton 1992). The financial perspective includes traditional metrics like profit margins, return on investment, and economic value added. The customer perspective measures customer satisfaction, retention, and market share. The internal processes perspective assesses the efficiency and effectiveness of business operations (Kaplan 2009).

The learning and growth perspective focuses on employee training, development, and innovation. The BSC approach integrates these diverse performance indicators into a coherent strategy, allowing organizations to align business activities with their vision and strategy, improve internal and external communications, and monitor performance against strategic goals.

Theories on Financial Performance

Financial performance has traditionally been a primary focus in evaluating the success and viability of businesses. Several theories have been developed to understand, measure, and improve financial performance, each providing different insights and frameworks. Below are some key theories related to financial performance:

Profit Maximization Theory

Profit maximization has long been regarded as the principal goal of a firm. This theory posits that the primary objective of a business is to maximize its profits by increasing revenue and minimizing costs. The roots of this theory can be traced back to classical economic theories and the works of early economists like Adam Smith (1776). The theory suggests that by focusing on profit maximization, firms can ensure their sustainability and growth, thereby providing returns to shareholders.

Agency Theory

Agency theory explores the relationship between principals (owners or shareholders) and agents (managers), where the latter are responsible for making decisions that affect the firm's financial performance. It addresses the conflicts of interest that arise when managers do not act in the best interests of shareholders. Jensen and Meckling (1976) formulated this theory, emphasizing the need for mechanisms to align the interests of managers with those of shareholders, such as performance-based incentives.

Resource-Based View (RBV)

The Resource-Based View (RBV) posits that a firm's sustainable competitive advantage and financial performance are largely determined by its internal resources and capabilities. RBV argues that resources that are valuable, rare, inimitable, and non-substitutable (VRIN) enable firms to achieve superior financial performance. This theory shifts the focus from external market conditions to internal strengths as key drivers of financial success.

The Role of the Audit Committee in Company Performance

In the context of corporate governance, the audit committee has been defined in several ways. For instance, Arens, Elder, and Beasley (2014, p. 135) define an audit committee as 'a chosen number of board members of a company whose duties include assisting auditors to stay independent of management.' The primary function of the audit committee is to provide recommendations for the selection and appointment of the external auditor. It also encompasses broader responsibilities, including overseeing management and the company's internal control system (Aldamen et al. 2012). Most audit committees consist of board members who are not part of the company's executive management (Arens, Elder, and Beasley 2014). Additionally, audit committees enhance the quality of financial reporting and reduce audit risk (Contessotto and Moroney 2014). Therefore, they play a crucial role in supervising company management to protect the interests of shareholders (Kallamu and Saat 2015).

It is quite clear that the audit committee supports the executive board through its monitoring and participation in strategic business decisions. In this context, the effectiveness of both internal and external audits, as well as the authenticity of financial statements, are regulated by the audit committee. In order to ensure the quality of the internal audit and financial reporting, it appeared that the involvement of the audit committee in the process was essential for the effective operation of the governance system (Turetken, Jethefer, and Ozkan 2020).

The audit committee has been understood and defined in a variety of ways and situations. The following definition is provided by the law SOX (Loi Sarbanes-Oxley): The term 'audit committee' refers to a committee that the executive board established with the goal of supervising the emitter's accounting and financial information processes as well as the financial state verifications.

According to the Ministry of Finance, the audit committee is a control body. It helps with the supervision of the financial report compliance rules, the observance of legal and regulatory requirements, as well as the qualification, independence, and actions of external auditors.

According to the Moroccan legal framework and regulations governing the operation and role of the audit committee, and in accordance with the requirements of Article 14 of the Dahir No. 1-03-195 of November 16, 2003 and which led to the promulgation of Law No. 69-00, the audit committee is in charge of three parts: internal audit, internal control audit, and external audit.

First and foremost, the committee is in charge of monitoring internal audit activities while ensuring their objectivity and independence from management. In this regard, it is the responsibility of the committee to review and debate the reports and recommendations provided by the internal audit. Consequently, the committee recognized the chart, the internal audit cycle, and the annual plan of the internal audit department. Second, the audit committee needs to pay attention to the internal control system. It reviews the effectiveness and efficiency of the laws, policies, and procedures currently in place.

Last but not least, the external audit's function is significantly influenced by the audit committee. Depending on their progress and the effectiveness of their work, the committee decides how much to pay the external auditors. In doing so, the committee conducts an evaluation of the performance, independence, and objectivity as attested by the external auditors.

Jensen and Mackling (1976) argued that separating ownership from management creates several issues, with agency conflict being one of the most severe, especially when executives act against the interests of owners. Agency theory suggests that a better-governed company should have better performance and valuation due to reduced agency costs. Therefore, the audit committee can control or mitigate these conflicts (Mohammed 2018). Beasley et al. (2009) identified key features of an effective audit committee, such as having knowledgeable, powerful, and independent members to ensure honest and accurate financial reporting, enabling stakeholders to make prudent and informed business decisions. Numerous studies globally have examined the characteristics and roles of audit committees. These studies often highlight features like size, independence, financial or industry expertise, stock ownership by committee members, and meeting frequency. Hence, it is expected that audit committees focus on maximizing shareholder wealth and preventing executives from prioritizing their interests (Bansal and Sharma 2016).

Interest in the role of audit committees has increased in recent years as they are seen as a crucial corporate governance tool that enhances board management's interrogation (Hamdan and Mushtaha 2011). An effective audit committee aims to improve a company's efficiency and competitiveness, particularly in a dynamic business environment beyond the company's control (Herdjiono and Sari 2017). It has been suggested that knowledgeable audit committees contribute to improved company performance, with excellent audit committee characteristics correlating with superior company outcomes (Zabri, Ahmad, and Wah 2016).

In Morocco, the corporate environment has faced many challenges, with instances of fraud and malpractices affecting investor confidence. Effective audit committees have played a crucial role in restoring investor trust in the business environment through their autonomous oversight of the annual corporate reporting process. Therefore, examining the association between audit committee mechanisms and company performance is vital.

This study contributes to the literature by highlighting the role of audit committee mechanisms – such as size, independence, financial expertise, and stock ownership by members – in influencing firm performance. Previous studies in Morocco have examined the effect of audit committees on firm performance within specific sectors. The aim of the present study is to explore the impact of audit committees on performance across all sectors of the Moroccan SMES, including financial, service, and industrial sectors. Good audit committee mechanisms are expected to positively affect firm performance.

Research Hypotheses

The literature has consistently emphasized the significance and the impact of the audit committee on the financial performance of the business. However, although being positive, this influence continues to be impacted by numerous internal and external factors. The internal factors are related to the size, composition, frequency, and skill levels of the audit committee members.

The size of the audit committee is determined by how many members sit on it (Ghosh, Marra, and Moon 2010). It has been found that the size of the audit committee affects how well it can monitor and control the management (Vinten and Lee 1993). However, it has been noted that the size of the audit committee has generated discussion among researchers over its relationship to the performance of the company.

Some claim that a smaller committee would perform worse financially, while others claim that the size of the committee has no bearing on performance when it comes to the study of it. According to Ghosh, Marra, and Moon (2010), audit committees with larger memberships perform better during the financial reporting process than smaller committees do. The findings of DeFond and Francis (2005), who came to the conclusion that a big audit committee could enhance the quality of financial reporting, seem to support this. On the other side, a number of authors argue that a small audit committee has a lot more advantages.

H1 *The size of an audit committee is negatively correlated with financial performance.*

The proportion of non-executive and executive administrators makes up the audit committee (Rahmat and Iskandar 2007). However, a significant number of independent or non-executive administrators support the audit committee's independence, transparency, and corporate responsibility (García, Barbadillo, and Pérez 2012).

The advancements of Xie, Davidson, and DaDalt (2003) show that the presence of a significant number of independent members enhances the effectiveness of management oversight. According to Abbott, Park, and Parker (2000), the independence of the audit committee can deter financial fraud and encourage the improvement of accounting standards (Bradbury, Mak, and Tan 2006).

H2 *External administrators' presence on the audit committee has a negative correlation with financial performance.*

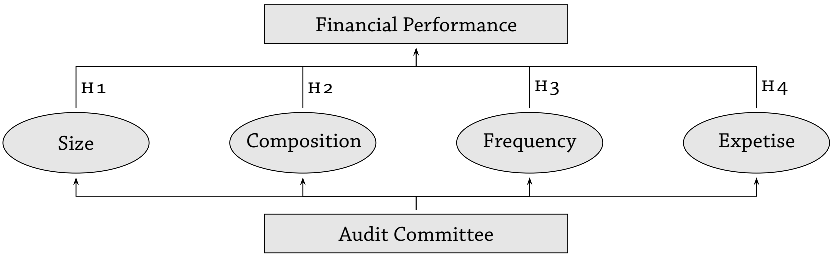

FIGURE 1 Research Hypotheses

The frequency of meetings serves as a measure of the committee's activity. Since members of the audit committee require a sufficient amount of time to deliberate before making decisions that are effective (Conger, Finegold, and Lawler 1998), the frequency of meetings is used to measure the committee's activity (McMullen, Raghunandan, and Rama 1996; Abbott and Parker 2004). This frequency of meetings is related to the effectiveness of the audit committee (Kalbers and Fogarty 1998), as well as to its size.

In this regard, meeting frequency increases control and, consequently, financial reporting quality (Carcello et al. 2002). For instance, Abbott and Parker (2004) state that the frequency of meetings helps the committee in understanding the internal audit and accounting problems in the first place (Raghunandan, Rama, and Scarbrough 1998). Additionally, frequent meetings of the audit committee members increase the probability of finding financial state errors.

H3 *The frequency of the audit committee's meetings is negatively correlated with its financial performance.*

It is true that an increasing number of businesses are looking for profiles of financial experts, specialists in accounting and management control, and legal experts in business law, national law, and international law for their boards and audit committees. This is the first set of skills that companies are looking for in their experts, which are now frequently provided by independent administrators.

As a result, the audit committee has to include members who have expertise in accounting and auditing (DeZoort 1997). To effectively carry out their oversight responsibilities, the committee's members, who have a variety of professional backgrounds and experiences, need to be proficient in accounting and auditing.

When there are conflicts between the recommendations of the external and internal auditors, the presence of professionals on the audit committee enhances the internal auditors' judgment and the external auditors' proposals (DeZoort and Salterio 2001). DeZoort and Salterio (2001) also claim that having financial specialists on the audit commit-

tee helps all members understand the procedures and identify risks and weaknesses in the company.

H4 *Financial distress is negatively correlated with the financial expertise of the audit committee members.*

RESEARCH METHODOLOGY

This section describes the research methodology chosen to formulate the econometric research model in order to test the hypotheses, define the variables, and construct the conceptual model before identifying the data sources.

Research Model

In light of the goal of our approach, which is to understand the impact of the internal audit committee on the performance of Moroccan SMES, a quantitative approach will be employed in our research. Therefore, the development of a mathematical model of linear regression precedes the empirical verification of the previously proposed hypotheses.

The two dependent variables are the financial performance and the audit committee's independence. The characteristics of the audit committee and the executive board are the independent variables.

The control variables are shown in addition to the independent and dependent variables. These latter ones may affect the impact of independent variables on dependent variables. The studied variables are summarized in table 1.

Dependent Variables

The two dependent variables in this study are financial performance (DFIN) and the independence of the audit committee (INDCA).

- *Financial Performance* (DFIN). Financial performance is crucial as it indicates how well a company is utilizing its resources to generate profits. According to prior research, effective audit committees are often associated with enhanced financial performance due to their role in ensuring accurate financial reporting and robust internal controls (Klein 2002; Bedard, Chtourou, and Courteau 2004).

TABLE 1 Study Variables

Variables		Definitions
Dependent	Financial performance (DFIN)	Profitability rate = net profit ÷ total assets
	Independence of the audit committee (INDCA)	The percentage of non-executive directors
Independent	Committee size (TCAUD)	The number of directors on the audit committee
	Composition of the committee (CCAUD)	The ratio of non-executive members
	Frequency of meetings (FRCAUD)	The number of audit committee meetings held per year
	Financial expertise (EFCAUD)	The number of individuals holding international certifications or holding at least a license in management science, including accounting, finance, or audit
Control	Size of the company (TAILLE)	firm size is the natural logarithm of total assets for each year
	Audit quality (QUAUD)	designation of audit firms 'Big 4'
	Industry dynamics (INDUST)	1 = Company in growth 0 = Company not in growth

- *Audit Committee Independence* (INDCA). The independence of the audit committee is gauged by the presence of non-executive members on the committee. An independent audit committee is believed to be more effective in monitoring management and ensuring the integrity of financial reports (Abbott et al., 2004). The presence of non-executive members reduces potential conflicts of interest and enhances the objectivity of the committee's oversight functions (Klein 2002).

Independent Variables

The independent variables represent various characteristics of the audit committee:

- *Size* (TCAUD). The size of the audit committee, which refers to the number of members, can impact its effectiveness. Larger committees may benefit from a broader range of expertise and perspectives, but they may also face challenges in coordination and decision-making (Lin, Li, and Yang 2008).
- *Composition* (CCAUD). The composition of the audit committee

includes the mix of executive, non-executive, and independent members. A higher proportion of independent members is generally associated with better monitoring and control (Klein 2002).

- *Frequency of Meetings* (FRCAUD). The number of times the audit committee meets in a year can influence its effectiveness. More frequent meetings are typically associated with more diligent oversight and quicker response to emerging issues (Krishnan 2005).
- *Members' Financial Expertise* (EFCAUD). The financial expertise of audit committee members is crucial for understanding complex financial issues and ensuring accurate financial reporting. Committees with members who have financial expertise are more likely to identify and correct financial misstatements (Rahmat and Iskandar 2009).

Control Variables

Control variables are essential in this analysis to account for other factors that might influence the relationship between audit committee characteristics and financial performance. Key control variables include:

- *Company Size* (TAILLE). Larger companies often have more complex operations and may benefit from economies of scale. Company size can influence the effectiveness of the audit committee and overall financial performance. Prior research has shown that larger firms are more likely to have well-structured audit committees (Lin, Li, and Yang 2008).
- *Audit Quality* (QUAUD). The quality of the external audit is crucial for ensuring the reliability of financial reports. High audit quality enhances investor confidence and can positively impact financial performance (DeFond and Zhang 2014). Audit quality is often proxied by the reputation of the audit firm, such as being audited by one of the Big Four accounting firms (Francis, Maydew, and Sparks 1999).
- *Industry Dynamics* (INDUST). The industry in which a company operates can significantly influence its profitability and stability. Different industries face varying levels of competition, regulatory pressures, and market dynamics, which can impact financial performance (Dhaliwal et al. 2012). Including industry dynamics

FIGURE 2 Conceptual Model of Research

as a control variable ensures that sector-specific challenges are accounted for in the analysis.

By exploring these variables, we aim to offer a comprehensive understanding of audit committee impacts on financial performance in diverse industry contexts. The study's model, including independent, dependent, and control variables, is shown in figure 2.

Sample and Data Source

The study's sample is composed of Moroccan SMES. This section gives the list of the data collection, sampling methodology, and analysis methods used to support or refute developed hypotheses. The data collection is based on the deductive approach, in which empirical data will be gathered by the administration of a questionnaire to SMES from Morocco.

The sample includes participants from the administrations of 58 SMES, covering the period from 2018 to 2022. The questionnaire was administered from March 2023 to August 2023 using the online survey platform Qualtrics. The questionnaire consists of four sections:

- Company profile: Questions in this section gather basic information about the company, such as industry sector, size, age, and ownership structure.
- Participant information: This section collects data on the respondents' demographics, including their role in the company, years of experience, and educational background.
- Audit committee characteristics: Questions here focus on the audit committee's composition, size, independence, frequency of meetings, and the financial expertise of its members.
- Company financial information: This section includes questions on financial performance indicators such as profitability, revenue growth, and return on assets.

TABLE 2 Number of Observations per Sector

Sectors	Observations	Sectors	Observations
Agriculture	34	Manufacturing and production	21
Food industry	8	Hospitality sector	25
Insurance	13	Real estate sector	15
Consumption	23	Pharmaceutical	17
Marketing	30	IT sector	46
Distribution and Logistics	25		

In targeting SMES for inclusion in our study, we used a systematic sampling procedure to ensure a representative sample. First, we compiled a comprehensive list of SMES operating in the private sector in 12 different activity sectors, as shown in table 2.

From this list, we randomly selected 58 SMES to participate in the study. To determine eligibility, we checked whether the selected SMES had audit committees in place and whether they were subject to mandatory external audit requirements. This information was crucial in ensuring that participating SMES had the necessary governance structures and met regulatory standards, which are an integral part of our research objective.

Regarding the target respondents within the entities, we mainly aimed to engage people occupying key positions related to governance, finance and internal controls within the organizations. These individuals typically included members of senior management such as CEOs, CFOs, internal auditors, and audit committee members. Additionally, we sought to involve individuals with relevant training and expertise in accounting, finance or auditing to provide insightful answers aligned with the objectives of our research.

Regression equations can be developed using quantitative analysis. They will operate as a mathematical model to help control facts and understand hypotheses and the interactions of variables.

RESULTS

In this section, a demonstration of the quantitative analysis of the data that was gathered will be introduced, starting with a detailed explanation of the descriptive statistics parameters shown in table 3 and followed by a presentation of the hypotheses that were put to the test using various methods (correlation and logistic regression).

Descriptive Statistics

Table 3 provides a comprehensive overview of the descriptive statistics for various characteristics of audit committees observed throughout the study period from 2018 to 2021. Among these variables, DFIN, representing the profitability rate, exhibits a mean of 0.688, a median of 0.900, and a standard deviation of 0.233, suggesting moderate data dispersion around the mean.

Similarly, INDCA, which measures the independence of the audit committee, shows a mean of 0.215, a median of 0.181, and a standard deviation of 0.158, indicating relatively low variability in the levels of audit committee independence within the sample.

The average size of the audit committee (TCAUD) is approximately 3.6 members, with a median of 3, indicating that most companies have around three members in their audit committees. The standard deviation suggests a slight variation in the committee sizes across different companies.

With an average of 0.908 and a median of 1.000 of the audit committee composition (CCAUD), it can be inferred that most audit committees have a high level of appropriate composition, nearly reaching full compliance with the ideal composition criteria. The low standard deviation supports a homogeneous composition across firms.

The audit committees during these four years of study must have a least three members, with the majority being non-executive. Audit committees meet (FRCAUD), on average, around four times per year. The higher standard deviation indicates variability in meeting frequency, suggesting some committees meet significantly more or less often than others. Most audit committees have at least one member

TABLE 3 Descriptive Statistics

Variable	N	$\bar{x}$	M	SD
DFIN	58	0.688	0.900	0.233
INDCA	58	0.215	0.181	0.158
TCAUD	58	3.588	3.000	0.663
CCAUD	58	0.908	1.000	0.184
FRCAUD	58	4.255	4.000	1.666
EFCAUD	58	1.035	1.000	0.368
TAILLE	58	13.679	13.644	1.855
QUAUD	58	0.903	1.000	0.259
INDUST	58	0.570	1.000	0.473

with financial expertise (EFCAUD), with moderate variability, indicating that some committees may have more than one expert.

The average size of the Moroccan SME (TAILLE) is 13.679, which is the natural logarithm of the total of the active population.

 Regarding audit quality (QUAUD), the data reveals that the majority (90.3%) of Moroccan SME work with big audit firms. This demonstrates that a trend toward good control quality by Moroccan SME is probable.

For the company growth dynamics (INDUST), the average indicates that, approximately 57% of the SMES in the sample are experiencing growth. The standard deviation is 0.473, indicating variability in growth dynamics among the SMES.

Results of Regression Analysis

This section displays the correlation matrix between independent variables to see if there is a collinearity problem. The influence of the audit committee's characteristics on its independence is measured using logistic regression. The matrix of correlation between independent variables is shown in table 4.

A visual examination of table 4 reveals generally weak cross-correlations. For instance, the correlation between the frequency of the audit committee's meetings (FRCAUD) and the size of the business (TAILLE) is 0.233. It is vital to note that this last value is the highest correlation coefficient that could be found in the matrix. In fact, the correlation between the frequency of meetings (FRCAUD) and the audit quality (QUAUD) is –0.007, indicating a very weak correlation.

Table 5 presents the results of the logistic regression considering the following control variables: audit quality (QUAUD), company size (TAILLE) and industry dynamics (INDUST). Five models are estimated, and at each step, non-significant independent and/or control

TABLE 4 Matrix of Cross-Correlations between the Characteristics of the Audit Committee

Variable	TCAUD	CCAUD	FRCAUD	EFCAUD	TAILLE	QUAUD
TCAUD	1.000	–0.122	0.235	0.122	0.184	0.115
CCAUD	–0.122	1.000	–0.073	–0.188	–0.011	0.151
FRCAUD	0.235	–0.073	1.000	–0.110	0.273	–0.007
EFCAUD	0.122	–0.188	–0.110	1.000	–0.122	0.040
TAILLE	0.184	–0.011	0.273	–0.122	1.000	0.203
QUAUD	0.115	0.151	–0.007	0.040	0.203	1.000

TABLE 5 Logistic Regression Model Explaining Financial Performance Based on Audit Committee Characteristics

Variables	Coefficients				
	1	2	3	4	5
Constant	11.557	9.926	9.754	−0.905	0.668
TCAUD	0.631**	0.326		0.425	
CCAUD	−1.416			2.145	
FRCAUD	−0.697**	−0.633***	−0.593**	−1.336***	−0.972***
EFCAUD	−0.879			−0.684	
TAILLE	−0.816***	−0.877***	−0.827***		
QUAUD	−0.420				
INDUST	−0.045	−0.049	−0.067		
Cox et Snell	0.155	0.144	0.160	0.117	0.097

NOTES *, **, and *** denote significance levels of $p < 0.1$, 0.05, and 0.01, respectively, at two-tailed tests.

variables are eliminated. Model 1 indicates that the variables CCAUD, EFCAUD, and QUAUD are not significant with a p-value ≥ 0.05.

Consequently, these variables are excluded from Model 2. The latter shows that the variable TCAUD is not significant with a p-value ≥ 0.05. Therefore, TCAUD is removed from the LOGIT model. In the subsequent analysis, Model 3 is retained. The Cox and Snell pseudo-R^2 coefficient is equal to 0.160. Thus, 16% of the variations in financial performance are explained by the frequency of audit committee meetings (FRCAUD) and company size (TAILLE). Additionally, the variables FRCAUD, TAILLE and INDUST are individually significant with p-values ≤ 0.05.

A visual inspection of table 5 reveals that the coefficient of the variable FRCAUD is −0.593. This suggests a negative and significant relationship between the frequency of audit committee meetings (FRCAUD) and financial performance (DFIN). Moreover, the odds ratio of the FRCAUD variable obtained by $e^{-0.593}$ indicates that SMES with a higher meeting frequency have 0.55 times the chance of experiencing financial performance decline compared to less active SMES. This aligns with H3. Furthermore, the results indicate that company size (TAILLE) and financial performance (DFIN) are negatively related with a significant coefficient of −0.827, where $p \leq 0.05$. This implies that SMES with increasing size have 0.44 times the chance of experiencing financial performance decline compared to SMES with decreasing size.

DISCUSSION

Based on empirical findings, the debate will center on the committee's characteristics and how they affect financial performance. In this regard, interpretations are advanced in terms of the relationship between the size of the audit committee and financial performance, the composition of the committee and financial performance, the frequency of the committee meetings and financial performance, and finally, the level of expertise and financial performance.

The Connection between Financial Performance and the Size of the Audit Committee

Building upon the existing literature, the discussion on the connection between the size of the audit committee and financial performance gains strength. The literature consistently underscores the significance of the audit committee in influencing financial outcomes, albeit subject to various internal and external factors. Internal factors, including the size, composition, frequency, and skill levels of audit committee members, play a crucial role in shaping its effectiveness.

Previous studies have highlighted divergent views regarding the relationship between the size of the audit committee and financial performance. While some researchers argue that larger committees offer better oversight and control over management, others contend that smaller committees may yield superior financial outcomes. Ghosh, Marra, and Moon (2010) suggest that audit committees with larger memberships tend to perform better during the financial reporting process, potentially enhancing the quality of financial reporting as evidenced by Defond and Francis (2005).

However, the current study presents a nuanced perspective by examining the context of Moroccan SMES. Despite conventional wisdom suggesting that larger audit committees are associated with improved financial performance, empirical findings reveal a negative correlation between the size of the audit committee and financial success within this context. This observation underscores the need for a tailored approach to governance practices within SMES, taking into account their unique characteristics and challenges.

Thus, the hypothesis (H1) proposing a negative correlation between the size of the audit committee and financial performance gains further support from both the existing literature and the empirical findings of this study. This highlights the importance of considering not only the size but also the composition and dynamics of the audit committee in driving effective governance practices and ultimately contributing to financial success within SMES.

The Composition of the Audit Committee and Financial Performance

Expanding upon the discussion on the relationship between the composition of the audit committee and financial performance, it is evident that Moroccan SMES face challenges in aligning with recommended governance practices set forth by the Ministry of Finance. Despite the importance of having a balanced composition of the audit committee, including independent non-executive members, the empirical findings indicate a lack of significant correlation between committee composition and financial outcomes.

The existing literature provides insights into the significance of having a substantial presence of independent members on the audit committee. Rahmat and Iskandar (2007) highlight the pivotal role played by non-executive administrators in ensuring the independence, transparency, and corporate responsibility of the audit committee. Furthermore, studies by Xie, Davidson, and DaDalt (2003) and Abbott, Park, and Parker (2000) underscore the positive impact of independent members on enhancing management oversight and deterring financial fraud.

However, the current study's findings suggest that the presence of external administrators on the audit committee does not have a significant correlation with financial performance within the context of Moroccan SMES, contrary to hypothesis H2. This discrepancy may be attributed to the challenges faced by SMES in fully integrating independent members into their audit committees, potentially limiting their effectiveness in overseeing internal controls and improving financial reporting standards. Despite the lack of empirical support for hypothesis H2, the theoretical underpinnings of the importance of independent members on the audit committee remain relevant. Future research should delve deeper into the barriers hindering SMES from incorporating independent members effectively and explore alternative governance mechanisms to enhance financial performance and transparency within this sector.

The Frequency of Audit Committee Meetings and Financial Performance

Expanding upon the discussion regarding the relationship between the frequency of audit committee meetings and financial performance, the findings of the study do not demonstrate a significant correlation between these variables. However, it is important to acknowledge the potential impact of audit committee activities on SME performance, as frequent meetings can play a crucial role in effectively monitoring operations and carrying out oversight responsibilities.

The literature supports the notion that the frequency of audit committee meetings serves as a key indicator of committee activity and effectiveness. Studies by Conger, Finegold, and Lawler (1998) and McMullen, Raghunandan, and Rama (1996) highlight the importance of meeting frequency in measuring the committee's level of engagement and involvement in governance processes. Moreover, research by Kalbers and Fogarty (1998) suggests that meeting frequency is positively associated with the effectiveness of the audit committee.

Furthermore, increased meeting frequency has been linked to improvements in financial reporting quality and the detection of accounting irregularities (Carcello et al. 2002; Abbott and Parker 2004). Frequent meetings enable committee members to gain a deeper understanding of internal audit processes and accounting issues, thus enhancing their ability to identify and address financial statement errors (Raghunandan, Rama, and Scarbrough 1998).

Despite the theoretical rationale supporting hypothesis H3, which posits a negative correlation between the frequency of audit committee meetings and financial performance, the empirical findings of the study do not support this assertion. However, it is important to recognize the inherent value of frequent audit committee meetings in promoting effective governance practices and enhancing financial reporting quality within SMES. Further research may be warranted to explore the nuanced dynamics underlying the relationship between meeting frequency and financial performance in the context of Moroccan SMES.

The Financial Expertise of the Audit Committee and Financial Performance

Building upon the discussion concerning the relationship between the financial expertise of audit committee members and financial performance, the statistical findings do not support a negative correlation between these variables, thereby refuting hypothesis 4. Contrary to expectations, the presence of financial expertise among committee members does not appear to exert a significant influence on financial performance in the context of Moroccan SMES.

However, it is essential to recognize the importance of having at least one committee member with the requisite financial qualifications, as mandated by regulatory guidelines and best practices. While the small size of audit committees may limit the number of members with specialized expertise, the inclusion of individuals possessing financial acumen remains critical for enhancing the committee's effectiveness in overseeing financial matters.

The literature underscores the significance of incorporating financial experts on audit committees to fulfill their oversight responsibilities effectively. Businesses increasingly seek individuals with backgrounds in accounting, management control, and legal expertise to serve on their audit committees, particularly as independent directors. These professionals play a crucial role in facilitating informed decision-making and ensuring compliance with regulatory standards.

Moreover, the presence of financial specialists on audit committees enhances the committee's ability to understand complex financial procedures, identify potential risks, and address weaknesses within the organization (DeZoort and Salterio 2001). Their expertise contributes to informed judgments regarding conflicts between external and internal auditors' recommendations, thereby bolstering the committee's effectiveness in safeguarding the company's financial interests.

While the empirical findings of the study may not support hypothesis H4, which posits a negative correlation between financial distress and the financial expertise of audit committee members, the theoretical rationale underscores the importance of expertise in enhancing the committee's ability to fulfill its oversight role effectively.

CONCLUSION

In the current research work, the impact of the audit committee's characteristics on the financial performance of Moroccan SMES has been examined through the analysis of empirical findings.

The findings suggest a connection between financial performance and the frequency of audit committee member meetings. It is important to note that, in this regard, businesses that have regular meetings of their audit committee typically do better than those that only do so occasionally. The frequency with which audit committees assemble determines their ongoing activity and serves as a measure of their effectiveness in carrying out their duties, exercising their control, and preparing financial statements.

The audit committee is also influenced by other independent factors, such as the size, composition, and financial skill of the committee members. In this regard, the results show no significant connection of the audit committee to the financial success of Moroccan SMES.

From a theoretical viewpoint, the relevance and value of agency theory in studying the relationship between governance and manager/owner is explained by the special significance of information asymmetry between the two parties. The owner-manager or majority shareholder has a tendency to reduce the size of the committee or to meet the bare minimum requirements of regulations. Therefore, Moroccan SMES do not always have the capacity to produce the information that is useful and essential to make actions and perform major strategic orientations. As a result, the number of members who may participate at the strategic level of SMES is constrained, which hinders the value of organizational learning. In fact, the organizational legitimacy and the role of the audit committee are contested in the attempt to reduce the financial difficulties of Moroccan SME. As previously noted, the frequency of meetings is adhered to by the audit committees in accordance with the laws that are currently in effect.

In conclusion, while this study sheds light on the relationship between audit committee characteristics and financial performance in Moroccan SMES, it is important to acknowledge several limitations. Firstly, the study's sample size may limit the generalizability of the findings to a broader population of SMES in Morocco. Additionally, the study's focus on specific audit committee characteristics may overlook other factors that could influence financial performance. Future research could address these limitations by employing larger and more diverse samples, and considering a wider range of variables. Despite these limitations, this study contributes valuable insights into the role of audit committees in enhancing financial performance within the context of Moroccan SMES.

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