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Corporate Governance Mechanisms and Their Influence on Saudi Firm Performance

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Abstract
This study explores the relationship between internal corporate governance mechanisms, specifically focusing on the board of directors and audit committee characteristics, and the performance of Saudi companies listed on the Saudi stock exchange in 2010, with the exclusion of financial companies. The findings of the study diverge from the predictions of agency theory, which suggests that the board of directors and audit committees play a role in reducing agency problems and minimizing agency costs by aligning the interests of controlling owners with those of the company. One notable result is that audit committee size shows a significant relationship with firm performance, although this relationship is in the opposite direction to what was anticipated. In contrast, other hypothesized variables, such as the proportion of non-executive directors, CEO duality, board size, audit committee independence, and audit committee meetings, were found to align with the expected directions but were not significantly related to firm performance. Additionally, the proportion of non-executive directors displayed a relationship opposite to the expected direction. Despite the lack of significant findings for most variables, the study highlights the complexity of corporate governance mechanisms and their varying effects on firm performance in the Saudi context.
Keywords: Corporate Governance, Board of Directors, Audit Committee, Firm Performance
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1. INTRODUCTION

Corporate scandals such as those involving Enron, Global Crossing, Tyco, and WorldCom have severely undermined investor confidence, making it more difficult for companies to raise equity through the stock market (Agrawal, 2005). In the aftermath of these scandals, many reports indicated that the board of directors and its committees failed to adequately supervise management. For instance, Enron manipulated its financial statements using off-balance sheet financing, and the board, lacking independence from senior executives, was unable to detect or disclose the fraudulent financial statements (Deakin and Konzelmann, 2004). Similarly, WorldCom grossly overstated its earnings and ultimately filed for bankruptcy. The subsequent investigation revealed that the audit committee failed to effectively oversee management's activities, allowing the manipulation to go unchecked (Weiss, 2005). These high-profile corporate scandals, along with the 1997 Asian financial crisis, have underscored the critical importance of strong corporate governance practices for the long-term survival and stability of companies (Mokhtar et al., 2009). Effective governance mechanisms, such as independent boards and diligent audit committees, are essential to safeguarding shareholder interests and preventing mismanagement.

In Saudi Arabia, a similar crisis occurred when the Saudi Stock Market (SSM) experienced a significant crash in early 2006. This crash led the Capital Market Authority (CMA) to suspend the trading of two major firms, Al Sanie and Saad Group, raising serious concerns about the effectiveness of the corporate governance mechanisms in place to protect investors' interests. The events following the crash called into question the adequacy of the existing monitoring and oversight devices in Saudi corporations. In response to widespread criticism of corporate management practices after the 2006 market crash, the CMA introduced corporate governance regulations in November 2006. These regulations were intended to strengthen the corporate governance framework in Saudi Arabia, ensuring better oversight and protection of investor interests in the future. Based on the premises of agency theory, Jensen and Meckling (1976) and Shleifer and Vishny (1986) argued that principal-agent conflicts are likely to arise when the roles of management and ownership are separated, especially in the presence of asymmetric information. This separation creates a situation where managers may act in their own self-interest, often at the expense of shareholders or capital providers. Managers may pursue projects that are excessively risky or misaligned with the long-term interests of the company, resulting in the inefficient use of corporate assets. Such behavior can negatively impact the providers of capital, as managers prioritize personal gains or short-term outcomes over sustainable growth. To mitigate these potential conflicts and reduce the costs associated with agency problems, both internal and external corporate governance mechanisms have been developed. Internally, structures like independent boards of directors, audit committees, and performance-based compensation aim to align management's interests with those of shareholders. Externally, regulatory frameworks, market discipline, and shareholder activism serve to monitor management behavior and hold them accountable. Together, these mechanisms are designed to reduce the likelihood of agency conflicts and promote the responsible use of corporate resources, ensuring that the interests of capital providers are protected.

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2. LITERATURE REVIEW

According to Jensen and Meckling (1976), boards that are dominated by outside directors or non-executive directors (NEDs) can help mitigate agency problems by effectively monitoring and controlling the opportunistic behavior of management. The presence of NEDs is thought to provide a level of oversight that aligns management's actions more closely with shareholder interests, reducing the potential for self-serving decisions by managers. However, empirical studies investigating the relationship between board composition and firm --performance have yielded mixed results. Several studies have found a positive correlation between the presence of NEDs and improved financial performance. For instance, Dehaena et al. (2001), Omar (2003), and Rhoades et al. (2000) demonstrated that having non-executive directors on the board is associated with better financial outcomes. Similarly, research by Krivogorsky (2006), Lefort and Urzúa (2008), and Limpaphayom and Connelly (2006) also found a positive relationship between board composition—specifically the proportion of independent directors—and firm performance.

Hasnah (2009) further supports this view, showing that the presence of NEDs is significantly related to firm performance when measured by return on assets (ROA). These findings suggest that NEDs play a critical role in enhancing corporate governance and improving financial performance, particularly through their ability to provide independent oversight and objective decision-making, which helps to align management activities with the long-term interests of shareholders. Nonetheless, the inconsistency in results across various studies highlights the complexity of the relationship between board composition and firm performance, suggesting that other contextual factors may also influence this dynamic. On the other hand, Coles et al. (2001) demonstrated that the presence of outside directors can have a negative impact on firm performance, challenging the assumption that independent boards always lead to better governance. Similarly, Erickson et al. (2005) found a negative relationship between increased board independence and firm value, suggesting that too much board independence might undermine firm performance. Bhagat and Black (2002) and De Andres et al. (2005) went further, finding no significant relationship between board composition and firm value, indicating that the link between board structure and firm performance may not be as straightforward as previously thought.

Based on this discussion, and in light of agency theory, the following hypothesis can be empirically tested. According to Jensen and Meckling (1976), when an individual holds both the roles of CEO and chairman of the board (CEO duality), there is an increased likelihood that the individual will pursue personal interests that could harm the firm. The concentration of power in one person may result in decisions that are self-serving rather than aligned with the long-term interests of shareholders. Mallette (1992) supports this view, arguing that when the roles of CEO and chairman are combined, there is a potential conflict of interest. In such cases, the CEO, acting as the chairman of the board, could set the agenda and influence the selection of board members, thereby limiting the board's ability to act independently and effectively oversee management. This concentration of power can weaken the board's capacity to monitor executives, making it harder to check the CEO's influence and prevent opportunistic behavior. As a result, CEO duality can undermine the board's effectiveness in its role as a governance mechanism designed to protect shareholder interests.

Empirical analyses of the impact of CEO duality on various corporate performance measures have produced conflicting results. Studies by Ahmadu, Aminu, and Taker (2005), Bhagat and Bolton (2008), Coles et al. (2001), Feng, Ghoshand, and Sirmans (2005), Judge, Naoumova, and Koutzevol (2003), Kyereboah-Coleman and Biekpe (2005), and Mustafa (2006) reported a significant negative relationship between CEO duality and firm performance. In contrast, Carapeto, Lasfer, and Machera (2005), Schmid and Zimmermann (2007), and Wan and Ong (2005) found no significant difference in firm performance between companies with or without CEO duality. These mixed findings make it reasonable to test the hypothesis that CEO duality impacts firm performance. Jensen (1993) posited that smaller boards are more effective in monitoring management, with a strong correlation between board size and the quality of oversight. Lipton and Lorsch (1992) supported this view, arguing that as board size increases, its effectiveness in monitoring management diminishes due to slower decision-making processes. They recommended that the optimal board size should be between eight and nine members, as any further increase would lead to diminishing returns in terms of additional monitoring benefits. Empirical studies also present mixed results regarding the relationship between board size and firm performance. While Ahmadu et al. (2005), Chan and Li (2008), De Andres et al. (2005), and Mustafa (2006) found that larger boards are associated with poorer firm performance, Beiner et al. (2004), Bhagat and Black (2002), and Limpaphayom and Connelly (2006) found no significant relationship between board size and firm performance. Given these conflicting results, further empirical testing of the relationship between board size and firm performance is warranted. The relationship between audit committee independence and firm performance is similarly ambiguous. Chan and Li (2008) found that audit committee independence—having at least 50% of expert-independent directors—positively impacts firm performance as measured by Tobin's Q. Ilona (2008) also identified a positive relationship between audit committee independence and performance, as measured by return on assets (ROA). Erickson et al. (2005) supported the notion that independent directors can reduce agency problems, leading to better firm performance. By extension, it is argued that an independent audit committee can also mitigate agency problems, suggesting a positive relationship between audit committee independence and firm performance.

The frequency of audit committee meetings is another crucial factor affecting its monitoring effectiveness. Lin, Li, and Yang (2006) highlighted the importance of regular meetings for maintaining robust oversight, while Anderson et al. (2004) noted that frequent meetings enhance the audit committee's ability to monitor internal controls and provide reliable information to shareholders. Audit committees that meet regularly with internal auditors are better informed about auditing and accounting issues and are more capable of addressing potential problems promptly. Abbott et al. (2004) and Raghunandan et al. (1998) argued that active audit committees with frequent meetings reduce the likelihood of financial fraud. Conversely, Menon and Williams (1994) suggested that inactive audit committees with fewer meetings are unlikely to supervise management effectively. Beasley et al. (2000) found that firms involved in fraudulent financial reporting had fewer audit committee

meetings compared to non-fraudulent firms. Hsu (2007) also observed a positive relationship between the number of audit committee meetings and firm performance, suggesting that frequent meetings enhance the committee's ability to oversee financial reporting and internal controls.

The size of the audit committee is another critical characteristic influencing its effectiveness. Governance reports such as the Cadbury Committee (1992), BRC (1999), the New York Stock Exchange (2002), and the Capital Market Authority (CMA) in 2006 recommended a minimum of three audit committee members. A larger audit committee is considered to have greater authority, a more extensive knowledge base, and enhanced organizational status, as argued by Kalbers and Fogarty (1993), Braiotta (2000), and Karamanou and Vafeas (2005). However, there are concerns that if an audit committee becomes too large, it may suffer from process inefficiencies and diffusion of responsibility, ultimately reducing its effectiveness (Karamanou and Vafeas, 2005). These mixed views suggest the need for further empirical investigation into the optimal size of audit committees for improving firm performance.

3. METHODOLOGY

This study focused on listed companies in Saudi Arabia, excluding financial institutions, at the end of 2010. The total number of companies listed on the Saudi Stock Market (TADAWUL) at that time was 146. After excluding financial companies, the final sample consisted of 135 companies that provided relevant data on corporate governance attributes. All data related to both the independent and dependent variables were collected from the companies' annual reports. Firm performance was measured using Tobin's Q ratio, a widely accepted metric in corporate governance research. Tobin's Q provides an estimate of intangible asset values such as market power, goodwill, management quality, and growth opportunities (Perfect and Wiles, 1994). It has been commonly used as a performance indicator in empirical corporate governance research, as demonstrated by studies such as those by Black et al. (2003), Larcker et al. (2004), and Drobetz et al. (2004). The study examined the effect of six internal corporate governance variables on firm performance: board composition (BODCOM), CEO duality (DUAL), board size (BSIZE), audit committee size (ACSIZE), audit committee activities (ACMEET), and audit committee independence (ACIND). Additionally, two control variables were included—firm size (FSIZE) and leverage (DEBT)—to account for company-specific factors that could influence performance. A summary of the variable measurements is provided in Table 1 of the study. The analysis aimed to identify how these corporate governance factors influence firm performance in the Saudi market, providing insights into the key drivers of governance-related performance outcomes. The relationship between audit committee characteristics and firm performance was analyzed by usingthe following model:

$TQ = \beta0 + \beta1 *BODCOM + \beta2 *DUAL + \beta3 *BSIZE + \beta4 *ACIND + \beta5 *ACMEET + \beta6 *ACSIZE + \beta7 *FSIZE + \beta8 *DEBT + \varepsilon$

TQ – Tobin s'Q.β0 – Intercept

BODCOM – Board compositionDUAL – CEO duality

BSIZE – Board size

ACIND – Audit committee independence.ACMEET – Audit committee meeting.

ACSIZE – Audit committee size.

FSIZE – The book value of the total assets of company. DEBT – The percentage of total liabilities to total assets.ε - Error term.

4. RESULTS AND DISCUSSION

Table 1: Descriptive Statistics for Continuous Variables

Variables	Mean	Std. Deviation	Min	Max
Board Composition (BODCOM)	0.570	0.253	0	1
CEO Duality (DUAL)	0.058	0.233	0	1
Board Size (BSIZE)	8.479	1.446	4	12
Audit Committee Independence (ACIND)	0.811	0.202	0.25	1
Audit Committee Activity (ACMEET)	4.862	2.635	1	25
Audit Committees Size (ACSIZE)	3.273	0.494	3	5
Tobin's Q Ratio (Tobin's Q)	1.357	0.843	0.16	5.58

The table 1 provides descriptive statistics for several continuous variables related to corporate governance and firm performance. These variables include board composition, CEO duality, board size, audit committee independence, audit committee activity, audit committee size, and Tobin's Q ratio, a measure of firm value. Board Composition (BODCOM) reflects the proportion of independent directors on the board. The mean value of 0.570 indicates that, on average, boards are composed of 57% independent directors. The standard deviation of 0.253 suggests moderate variability in this proportion across the sample. The minimum and maximum values range from 0 to 1, indicating that some firms have no independent directors, while others have fully independent boards. CEO Duality (DUAL) measures whether the CEO also serves as the chairperson of the board, a practice that can impact governance quality. The mean of 0.058 implies that CEO duality is relatively uncommon in the sample, with only about 6% of firms practicing it. The standard deviation of 0.233 further emphasizes the low prevalence of this practice, as the values range between 0 (no duality) and 1 (duality

present).

Board Size (BSIZE) describes the number of directors on the board. The mean board size is approximately 8.5 members, with a standard deviation of 1.446, indicating some variability in board sizes across firms. The minimum board size observed is 4 members, while the maximum is 12, suggesting a range of small to moderately large boards within the sample. Audit Committee Independence (ACIND) represents the proportion of independent members on the audit committee. The mean value of 0.811 indicates that, on average, audit committees consist of 81% independent members. The relatively low standard deviation of 0.202 suggests consistency across firms in maintaining a high level of independence within audit committees. The minimum value is 0.25, meaning some firms have very low independence in their audit committees, while others maintain fully independent committees. Audit Committee Activity (ACMEET) captures the number of meetings held by the audit committee. The average number of meetings is about 4.86 per year, with a considerable standard deviation of 2.635, indicating significant variability in audit committee activity. The number of meetings ranges from a minimum of 1 to a maximum of 25, reflecting differences in how frequently firms' audit committees convene.

Audit Committee Size (ACSIZE) refers to the number of members on the audit committee. The mean size is approximately 3.3 members, with a standard deviation of 0.494, indicating that most firms have audit committees of similar size, typically consisting of 3 to 5 members. Tobin's Q Ratio (Tobin's Q) is a measure of firm value, calculated as the market value of a company divided by the replacement cost of its assets. The mean Tobin's Q ratio of 1.357 suggests that, on average, firms in the sample are valued above the replacement cost of their assets. However, the standard deviation of 0.843 shows considerable variation in firm value across the sample. The minimum Tobin's Q ratio is 0.16, indicating that some firms are valued significantly below their asset replacement cost, while the maximum ratio of 5.58 indicates that other firms are valued much higher. The table 1 provides a snapshot of key governance variables and firm performance measures, highlighting the variability and central tendencies within the sample. The data suggests that while some governance practices, such as board and audit committee independence, are relatively standardized, others, such as audit committee activity and firm value, exhibit considerable variability across firms.

Table 2: Results of Pearson Correlation Analysis

	1	2	3	4	5	6
1) Board Composition (BODCOM)						
2) CEO Duality (DUAL)	0.043					
3) Board Size (BSIZE)	0.108	0.197*				
4) Audit Committee Independence (ACIND)	-0.023	0.010	0.020			
5) Audit Committee Activity (ACMEET)	0.148	0.072	0.223**	-0.045		
6) Audit Committees Size (ACSIZE)	0.036	0.240**	0.161	-0.186*	0.091	
7) Tobin's Q Ratio (TQ)	-0.048	-0.077	-0.154	0.066	-0.068	-0.171*

The table presents the results of a Pearson correlation analysis, examining the relationships between various corporate governance variables and Tobin's Q ratio, a measure of firm performance. The correlation coefficients indicate the strength and direction of these relationships, with asterisks denoting statistically significant correlations. Starting with Board Composition (BODCOM), the correlation coefficients with other variables are generally low, suggesting weak associations. There is a slight positive correlation with CEO Duality (DUAL) (0.043) and Board Size (BSIZE) (0.108), though neither is statistically significant. This implies that the proportion of independent directors on the board does not strongly relate to whether the CEO also serves as the board chair or to the size of the board. CEO Duality (DUAL) shows a statistically significant positive correlation with Board Size (BSIZE) (0.197*), indicating that firms with larger boards are slightly more likely to have CEO duality. There is also a significant positive correlation with Audit Committee Size (ACSIZE) (0.240**), suggesting that CEO duality might be more common in firms with larger audit committees. Board Size (BSIZE) is positively correlated with Audit Committee Activity (ACMEET) (0.223**), meaning that firms with larger boards tend to have more active audit committees, as reflected in the frequency of their meetings. This relationship is statistically significant, indicating a meaningful association between board size and audit committee activity. However, the correlation between board size and Tobin's Q Ratio (TQ) is negative (-0.154), though not statistically significant, suggesting that larger boards may be associated with slightly lower firm performance, but this relationship is not strong enough to be conclusive.

Audit Committee Independence (ACIND) has weak correlations with most variables, showing a slight negative correlation with Board Composition (BODCOM) (-0.023), CEO Duality (DUAL) (0.010), and Board Size (BSIZE) (0.020), none of which are significant. Interestingly, there is a negative correlation with Audit Committee Size (ACSIZE) (-0.186*), which is statistically significant. This suggests that larger audit committees may be less independent, possibly because increasing committee size might involve adding members who are less independent. Audit Committee Activity (ACMEET) has a positive and statistically significant correlation with Board Size (BSIZE) (0.223**), reinforcing the idea that larger boards are associated with more frequent audit committee meetings. However, its correlation with Tobin's Q Ratio (TQ) is negative (-0.068), indicating a potential, albeit weak, negative relationship between audit committee activity and firm performance. Audit Committee Size (ACSIZE) is positively correlated with CEO Duality (DUAL) (0.240**), suggesting that larger audit committees are more common in firms where the CEO also serves as board chair.

The negative correlation with Audit Committee Independence (ACIND) (-0.186*) is significant, as mentioned earlier, indicating that increasing the size of the audit committee might reduce its independence. The correlation with Tobin's Q Ratio (TQ) is negative (-0.171*), and this relationship is statistically significant, suggesting that larger audit committees may be associated with lower firm performance.

Finally, Tobin's Q Ratio (TQ), which reflects firm performance, shows generally weak correlations with the other variables. The most notable is the negative correlation with Audit Committee Size (ACSIZE) (-0.171*), indicating that firms with larger audit committees tend to have lower Tobin's Q ratios. This suggests that increasing the size of audit committees may not necessarily translate into better firm performance, and could in some cases be detrimental. In sum, the correlation analysis highlights several significant relationships between corporate governance variables. Larger board sizes are associated with more active audit committees and a greater likelihood of CEO duality, while larger audit committees may be less independent and could negatively impact firm performance as measured by Tobin's Q ratio. These findings provide insight into how different governance structures might influence firm outcomes, though the generally low correlation coefficients suggest that many of these relationships are relatively weak.

Before conducting the regression analysis, the assumptions of linearity, normality, homoscedasticity, and independence of errors were carefully examined. These assumptions were checked using residual analysis, plots of studentized residuals against predicted values, and P-P and Q-Q plots for both models. The results confirmed that there were no violations of these assumptions, indicating that the statistical requirements for applying multivariate techniques were satisfied. This ensures that the regression results obtained are valid and reliable. The results of the multiple regression analysis between internal corporate governance variables (Board of Directors and Audit Committee Characteristics) and Tobin's Q (TQ) are presented in Table 3, along with the corresponding coefficient and t-values. The F-value of the model is significant at the 0.10 level, and the adjusted R^2 is 4%, suggesting that the model explains a small proportion of the variance in firm performance. Regarding board composition (BODCOM), which was measured as the ratio of non-executive directors (NEDs) to the total number of directors, the study found no significant relationship with firm performance (TQ), meaning hypothesis 1 is not supported. This result aligns with institutional theory, which suggests that governance mechanisms, such as the composition of the board, may be implemented due to external pressures from regulators rather than their direct contribution to firm performance. This finding is consistent with prior studies by Haniffa and Hudaib (2006) and Vafeas and Theodorou (1998), indicating that the limited oversight provided by NEDs might explain the lack of significant impact on performance.

Similarly, CEO duality (DUAL) was found to be insignificantly related to firm performance (TQ), providing no support for hypothesis 2. This result aligns with studies by Haniffa and Hudaib (2006), Heenetigala and Armstrong (2011), and Hsu (2007), and may suggest, as Lipton and Lorsch (1992) posited, that the market believes the CEO is often the most knowledgeable individual about the company and is therefore well-suited to serve as chairperson of the board. The study also found that board size (BSIZE) was insignificantly associated with firm performance, though the relationship was in a negative direction. Consequently, hypothesis 3 is not supported. This result is consistent with studies by Ehikioya (2009) and Haniffa and Hudaib (2006), but contradicts findings by Chauhan and Dey (2009) and Wei Hu et al. (2010). One possible explanation for this outcome is that CEO dominance and information asymmetry may limit the board's ability to perform its monitoring role effectively (Hasnah, 2009). Audit committee independence (ACIND) was also found to be insignificantly related to firm performance, meaning hypothesis 4 is not supported. This finding is consistent with Hsu (2007), who also found no relationship between audit committee independence and firm performance, but contrasts with Chang and Li (2008), who observed a significant positive relationship between audit committee independence and Tobin's Q.

Audit committee meeting frequency (ACMEET) was found to be insignificantly related to firm performance, though the relationship was positive, as hypothesized. Thus, hypothesis 5 is not supported. This finding contrasts with Hsu (2007), who identified a significant relationship in the opposite direction to the expectation. However, audit committee size (ACSIZE) was found to have a significant relationship with firm performance at the 0.05 level, but in the opposite direction to the hypothesis, leading to a rejection of hypothesis 6. In general, the only variable that was significantly associated with firm performance was audit committee size (ACSIZE) ($\beta = -0.127$, $t = -1.423$, $p < 0.05$), but in the opposite direction to what was expected. Other variables, such as board composition (BODCOM), CEO duality (DUAL), board size (BSIZE), audit committee independence (ACIND), and audit committee meeting frequency (ACMEET), followed the expected directions but were not significant. Interestingly, the proportion of non-executive directors (BODCOM) showed a relationship opposite to the expectations. Based on the regression results, the model equation is as follows:

TQ=−0.216∗Audit Committee Size (ACSIZE)TQ = -0.216 * \text{Audit Committee Size (ACSIZE)}TQ=−0.216∗Audit Committee Size (ACSIZE)

In sum, the study found no significant relationship between the board of directors' characteristics, audit committee characteristics, and firm performance, except for audit committee size, which had a significant but negative impact. Therefore, the prediction that a well-structured board and audit committee would enhance firm performance was not supported in the context of Saudi Arabia. A plausible explanation for the insignificant relationship between governance variables and firm performance could be rooted in institutional theory, which suggests that companies may adopt governance practices due to regulatory pressures rather than because they directly improve performance. This theory implies that the adoption of certain regulations might be aimed at legitimizing the organization rather than necessarily enhancing its effectiveness.

Table 3: Regression results between board, AC variables and Firm performance (TQ)

Variables	Standardized Coefficients Beta	T-value
Board Composition (BODCOM)	-0.002	-0.023
CEO Duality (DUAL)	-0.007	-0.078
Board Size (BSIZE)	-0.109	-1.245
Audit Committee Independence (ACIND)	0.048	0.559
Audit Committee Activity (ACMEET)	0.002	0.019
Audit Committees Size (ACSIZE)	(-)0.127*	-1.423
Firm size (FSIZE)	-0.230	-2.659
Debt ratio (DEBT)	0.046	0.530
R^2		.098
Adjusted R^2		.043
F-value		1.767
F-Significance		.089

The table 3 presents the results of a regression analysis exploring the relationship between various board and audit committee (AC) variables and firm performance, as measured by Tobin's Q ratio (TQ). The analysis includes standardized coefficients (Beta), T-values for each variable, and overall model fit statistics. Starting with Board Composition (BODCOM), the standardized coefficient is very close to zero (-0.002), and the corresponding T-value (-0.023) indicates that this variable has an almost negligible and statistically insignificant impact on firm performance. This suggests that the proportion of independent directors on the board does not meaningfully influence the Tobin's Q ratio in this model. CEO Duality (DUAL) also shows a very small negative effect on firm performance, with a Beta of -0.007 and a T-value of -0.078. This result indicates that having the same individual serve as both CEO and board chair has little to no impact on firm performance, at least in the context of this analysis. Board Size (BSIZE) has a slightly larger negative coefficient (-0.109), though still not statistically significant as indicated by the T-value (-1.245). This suggests that, while there may be a slight tendency for larger boards to correlate with lower firm performance, the effect is weak and not conclusive.

Audit Committee Independence (ACIND) shows a positive but small coefficient (0.048) with a T-value of 0.559, indicating that greater independence within the audit committee might have a positive influence on firm performance. However, the effect is weak and not statistically significant, suggesting that audit committee independence alone does not strongly drive firm value. Audit Committee Activity (ACMEET), measured by the number of meetings, has an almost negligible effect on firm performance, with a Beta of 0.002 and a T-value of 0.019. This suggests that the frequency of audit committee meetings does not significantly impact the Tobin's Q ratio. Audit Committee Size (ACSIZE) shows a negative relationship with firm performance, with a Beta of -0.127 and a T-value of -1.423. This negative coefficient is significant at a marginal level, indicating that larger audit committees may be associated with lower firm performance. This finding aligns with earlier correlation results, where a larger audit committee size was linked to a reduction in firm performance.

Firm Size (FSIZE), included as a control variable, has a negative and statistically significant coefficient (-0.230) with a T-value of -2.659. This suggests that larger firms, as measured in this model, tend to have lower Tobin's Q ratios, which could imply that as firms grow in size, they may become less efficient or less valued by the market relative to their assets. Debt Ratio (DEBT) shows a small positive coefficient (0.046) with a T-value of 0.530, indicating that higher debt levels have a minor and statistically insignificant impact on firm performance in this model. Regarding the overall model fit, the R^2 value of 0.098 suggests that the model explains only about 9.8% of the variance in Tobin's Q ratio, which is relatively low. The Adjusted R^2 of 0.043, which accounts for the number of predictors in the model, is even lower, indicating that the model's explanatory power is modest at best. The F-value of 1.767, with a significance level of 0.089, is not quite statistically significant at the traditional 0.05 level, suggesting that the overall model does not provide a strong fit to the data. In sum, the regression results indicate that most of the board and audit committee variables examined have little to no statistically significant impact on firm performance, as measured by Tobin's Q ratio. The notable exception is audit committee size, which shows a marginally significant negative effect, suggesting that larger audit committees might be associated with lower firm performance. Firm size also emerges as a significant negative predictor, indicating that larger firms may experience reduced market valuation relative to their assets. Overall, the model explains a small portion of the variation in firm performance, suggesting that other factors not included in this analysis may be more important in determining firm value.

5. CONCLUSION

This study investigates the relationship between internal corporate governance mechanisms, specifically focusing on the

characteristics of the board of directors and the audit committee, and firm performance, as measured by Tobin's Q ratio (TQ). The motivation for this research stems from the existing gap in the literature, particularly the lack of comprehensive evidence from developing countries such as Saudi Arabia. Given the growing importance of corporate governance in shaping firm outcomes, this study aims to provide insights into how these governance mechanisms influence firm performance within the unique regulatory and economic context of Saudi Arabia.

The findings of this study indicate that internal corporate governance mechanisms, particularly the roles of the board of directors and audit committee, did not significantly enhance firm performance in Saudi companies. This outcome highlights critical implications for the development and reform of corporate governance practices in Saudi Arabia, particularly with regard to improving the effectiveness of the audit function and the overall governance framework. One key issue identified is the need to enhance the independence and competence of auditors, as well as to address structural and operational challenges within the Saudi audit market. These challenges may limit the ability of audit committees and boards to effectively monitor management and ensure that corporate governance standards positively influence firm performance. To improve corporate governance practices and the effectiveness of boards and audit committees, the Capital Market Authority (CMA) could play a pivotal role in driving necessary reforms. One way to achieve this is by increasing awareness and enhancing the skills of board members and audit committee members. The CMA could initiate a range of programs, such as business conferences, training workshops, and educational seminars, aimed at building the competence of board and audit committee members. These programs should focus on the critical responsibilities of governance bodies, including financial oversight, risk management, and ensuring transparency and accountability in the company's operations. Additionally, the CMA could provide guidelines or frameworks to clarify the specific roles and expectations of audit committees, thereby ensuring that these governance bodies are better equipped to meet the challenges posed by the evolving corporate landscape. Encouraging continuous professional development and facilitating certification programs for board and audit committee members could also be effective in strengthening governance capabilities. Moreover, addressing the broader issues within the Saudi audit market is essential. Ensuring that auditors are independent from management influence is critical to enhancing the credibility of financial reporting and maintaining investor confidence.

The CMA could introduce stricter regulations to prevent conflicts of interest and ensure that audit firms operate with the highest levels of integrity. Measures such as periodic rotation of audit firms, stronger oversight of auditing practices, and greater transparency in audit engagements could help improve the quality of audits and reduce the risk of financial misreporting. Furthermore, promoting a culture of accountability within Saudi companies is essential. By reinforcing the importance of independent, well-functioning boards and audit committees, companies can foster an environment where decision-making is more transparent, aligned with shareholder interests, and focused on long-term sustainability. The CMA could also consider developing corporate governance scorecards or rankings to publicly recognize companies that demonstrate exemplary governance practices, incentivizing others to follow suit. In conclusion, the study's findings underline the need for significant improvements in corporate governance practices in Saudi Arabia, particularly in the roles of the board of directors and audit committees. By enhancing the skills, independence, and accountability of these governance bodies, and addressing issues in the audit market, the CMA can help pave the way for better firm performance. Through targeted reforms and capacity-building initiatives, Saudi companies will be better positioned to strengthen their governance structures, ultimately fostering greater investor confidence and contributing to the country's long-term economic growth and stability. The findings of this study do not align with the predictions of agency theory, which suggests that the board of directors and audit committee can mitigate agency problems by reducing agency costs and aligning the interests of controlling owners with those of the company.

Agency theory posits that effective corporate governance structures, such as independent boards and audit committees, should serve as mechanisms to monitor management and ensure that decisions are made in the best interest of shareholders. However, in this study, the corporate governance mechanisms examined did not demonstrate a positive impact on firm performance, indicating that these governance structures may not be functioning as intended within the Saudi context. These findings can be better understood through the lens of institutional theory, which views such governance mechanisms not necessarily as tools for improving firm performance, but as practices or regulations that are often adopted due to external pressures. According to institutional theory, companies may adopt certain governance practices not because they inherently lead to better outcomes, but because they are mandated by legislators or regulators, or because firms imitate the practices of others in an effort to conform to industry standards. In this case, the board of directors and audit committee structures may have been implemented in response to regulatory requirements or to gain legitimacy within the market, rather than to directly enhance firm performance. Institutional theory suggests that the adoption of certain governance mechanisms may be driven by coercion or compliance with legislative mandates, but without a guarantee that these practices will actually improve organizational effectiveness. In the case of Saudi Arabia, it is possible that companies have adopted these governance structures to meet the expectations of the Capital Market Authority (CMA) or to align with international governance trends, rather than as a strategic measure to improve performance. This could explain why the governance mechanisms examined in this study—such as board composition, CEO duality, and audit committee independence—did not yield significant positive effects on firm performance. Overall, while agency theory would predict that effective governance structures should reduce agency costs and enhance performance, the findings of this study suggest that institutional pressures, rather than performance-driven motivations, may be influencing the adoption of these practices. This highlights the need for a more nuanced understanding of corporate governance in the context of developing markets like Saudi Arabia, where compliance with regulations or conformity to global norms may not always translate into improved organizational outcomes.

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