

The Influence of Audit Committee Characteristics on Firm Profitability in Ghana

ALHASSAN MUSAH*

CHARLES AYAIGA

MARSHALL WELLINGTON BLAY

DANIEL ODEI OKYERE

Takoradi Technical University, Ghana

Abstract: *This study explored how audit committee characteristics—specifically independence, meeting frequency, size, and financial expertise—affect the profitability of companies listed on the Ghana Stock Exchange. Using secondary data from industrial firms spanning 2010 to 2020, the research focused on Return on Assets (ROA) as the key performance measure. The independent variables were AC size, financial expertise, meeting frequency, and independence. The findings revealed a statistically significant positive relationship between ROA, AC independence, and financial expertise. However, the results also indicated a significant negative correlation between audit committee size and firm performance (FP), suggesting that larger committees may hinder profitability. The study underscored the critical role of independent and financially knowledgeable audit committees in enhancing corporate governance and improving financial outcomes for publicly listed firms in Ghana. These findings emphasize the importance of robust audit committee features in promoting transparency, accountability, and better financial performance for industrial companies on the Ghana Stock Exchange.*

Keywords: *Audit Committee Size, Meetings, Independence, Financial Expertise, Firm Profitability*

Abstrak— *Studi ini meneliti bagaimana karakteristik komite audit—khususnya independensi, frekuensi rapat, ukuran, dan keahlian keuangan—mempengaruhi profitabilitas perusahaan yang terdaftar di Bursa Efek Ghana. Dengan menggunakan data sekunder dari perusahaan industri yang mencakup tahun 2010 hingga 2020, penelitian ini berfokus pada Return on Assets (ROA) sebagai ukuran kinerja utama. Variabel independennya adalah ukuran komite audit, keahlian keuangan, frekuensi rapat, dan independensi. Temuan tersebut mengungkapkan hubungan positif yang signifikan secara statistik antara ROA, independensi komite audit, dan keahlian keuangan. Namun, hasil tersebut juga menunjukkan korelasi negatif yang signifikan antara ukuran komite audit dan kinerja perusahaan, yang menunjukkan bahwa komite yang lebih besar dapat menghambat profitabilitas. Studi ini menggarisbawahi peran penting komite audit yang independen dan berpengalaman finansial dalam meningkatkan tata kelola perusahaan dan meningkatkan hasil keuangan bagi*

* Corresponding author: alhassan.musah@ttu.edu.gh

perusahaan yang terdaftar di bursa saham Ghana. Temuan ini menekankan pentingnya fitur komite audit yang kuat dalam mempromosikan transparansi, akuntabilitas, dan kinerja keuangan yang lebih baik bagi perusahaan industri di Bursa Efek Ghana.

Kata Kunci: *Ukuran Komite Audit, Rapat, Independensi, Keahlian Keuangan, Profitabilitas Perusahaan*

1. Introduction

Agency theory, as also predominantly applied in analysing the relationship between audit committee (AC) features and corporate performance, examines the possible interest conflicts and asymmetry in information between managers and shareholders (Musah et al., 2022; Musah et al., 2021). The AC is an integral part of corporate governance in mitigating such agency conflicts. An important feature of the AC is its independence. A non-biased audit committee is better positioned to assess financial reporting and internal controls because it will not easily fall prey to undue influence from management. According to Musah et al. (2022) and Alqatamin (2018), shareholders are provided with appropriate and reliable financial information due to independence that ensures guarding against managerial opportunism. This view is supported by Fariha et al. (2022) and Qeshta et al. (2021). Research shows that an independent AC positively enhances a firm's performance (FP) through a more credible and transparent form of financial reporting. Qeshta et al. (2021) posit that this perspective is an understanding that supports the agency theory, which emphasizes monitoring systems to protect the shareholders' interests. This study is grounded in the philosophy that audit committees play a fundamental role in establishing corporate governance norms and ensuring financial reporting is truthful (Fariha et al., 2022). At a time when the economy of Ghana is growing unabated, effective corporate governance practices cannot be overemphasized. The effectiveness of audit committees in monitoring financial procedures within corporations is significantly influenced by their unique features, such as their size, degree of independence, frequency of meetings, and financial knowledge (Hazzaa et al., 2024; Afenya et al., 2022). This study intends to offer important insights that can guide policy decisions, improve corporate governance standards, and ultimately contribute to the continued success of listed

organizations in Ghana by looking at how these particular factors affect firm's performance.

From the agency theory standpoint, AC members' competence is still another important factor. According to agency theory, the audit committee's knowledge gap about the business between managers (agents) and shareholders can be mitigated by including members with financial experience (Singhania & Panda, 2025; Qeshta et al., 2021). Members with strong financial literacy can better analyse accounting procedures, interpret complex financial data, and question management choices (Hazzaa et al., 2024; Fariha et al., 2022). This knowledge enhances the audit committee's overall efficacy in monitoring financial reporting procedures, lowering the possibility of opportunistic actions, and eventually enhancing the entity's profitability.

Furthermore, the regularity and calibre of AC meetings are crucial elements examined under the lens of agency theory (Nouraldeen, 2024; Qeshta et al., 2021). Regular meetings offer chances for in-depth conversation, careful analysis of financial matters, and improved comprehension of possible hazards (Bazhair, 2022). Effective communication among its members improves the committee's ability to monitor management actions closely. According to agency theory, a proactive AC can more effectively monitor and control responsibilities through frequent, high-quality interactions, enhancing corporate performance (Al-ahdal & Hashim, 2022). In general, analyzing audit committee features through the lens of agency theory offers insightful information about how governance mechanisms might be set up to balance the interests of shareholders and management better, improving the company's performance (Musah et al., 2022). Moreover, the Ghanaian context adds a distinctive dimension to this investigation, considering the unique challenges and opportunities in the country's business landscape (Musah et al., 2022). Understanding how audit committee characteristics impact firm performance in the Ghanaian setting is essential for tailoring corporate governance practices to the specific needs and dynamics of the local market.

Ghana's GDP is largely derived from the manufacturing sector. This sector oversees the nation's production of goods and services. This industry plays a vital role in the economy by providing jobs, supporting imports, and generating taxes for the

government (Padi & Musah, 2022). However, this sector's productivity and GDP contribution have decreased over the past few years. The Ghana Statistical Service (GSS) reports that the manufacturing companies listed on the Ghana Stock Exchange (GSE) in 2015 had fluctuating market performance. According to GSS (2019), this industry expanded by a pitiful 1.3% in 2015, 7.6% in 2016, 17.0% in 2017, 2.0% in 2018, and 0.6% in 2019. This raises the question of whether listed corporations' AC characteristics affect their financial performance.

In examining the impact of corporate governance on financial performance, prior research has predominantly concentrated on elements such as board composition and ownership structure and their influence on firm outcomes (Boachie, 2023; Padi & Musah, 2022; Musah et al., 2021; Coleman & Wu, 2021; Musah & Adutwumwaa, 2021; Puni & Anlesinya, 2020; Owiredu & Kwakye, 2020; Sarpong-Danquah et al., 2018). The relationship between AC and FP has been less explored in developing countries like Ghana than in developed nations (Kyerem & Ausloos, 2021). Research examining the impact of AC characteristics on FP has produced mixed results, largely due to cultural and contextual differences across regions (Singhania & Panda, 2025; Hazzaa et al., 2024; Fariha et al., 2022; Al-Jalahma, 2022; Rahman et al., 2019; Zhou et al., 2018; Qeshta et al., 2021). For example, Rahman et al. (2019) found a positive relationship between AC size and profitability in Indonesia, while Al-Jalahma (2022) and Fariha et al. (2022) reported negative correlations between AC independence, size, and FP in Bahrain and Bangladesh. This study addresses the research gap by examining the impact of AC on the financial performance of listed companies in Ghana. By focusing on these specific dynamics, the study provides valuable insights into corporate governance practices in developing economies, contributing to a better understanding of factors influencing FP in such regions.

This adds to the current and growing literature by broadening the knowledge of specific AC characteristics- independence, financial knowledge, meetings, and size- on FP in emerging markets like Ghana. The study enhances the discussion of corporate governance and FP by providing empirical evidence of the positive association of AC independence and financial expertise with firm profitability, as measured by ROA. On

this basis, this negative association between AC size and profitability brings a new dimension to the debate that possibly too large ACs may hamper the efficiency of decision-making and firm success. The study adds value to the nascent but growing body of work on the governance-performance nexus, especially in developing economies.

This study also contributes to agency theory by showing how some AC features may be effective in alleviating the agency problems that arise between shareholders and management, which in turn improves a firm's performance. Indeed, the positive relationship between AC independence and profitability supports the proposition of agency theory that independent oversight mechanisms help reduce information asymmetry and managerial opportunism. The inverse relationship between AC size and performance also suggests that inefficiency may occur in larger committees. This, therefore, further entrenches an effective governance structure to ensure that management actions conform to the interests of the shareholders. This study forms the core of an AC in reducing agency costs and improving corporate governance in a Ghanaian context.

These results have significant policy and practice implications for corporate governance frameworks of publicly listed firms. Policymakers may review corporate governance codes to emphasize the necessity for AC independence and financial expertise while encouraging parsimonious AC sizes that can promote superior performance. This study informs firms that appointing AC members with financial expertise and ensuring the independence of audit committees are ways to improve profitability. Second, firms must be cautious about the AC size getting too big since larger ACs reduce FP. These points are important for governance practices and improvement in the financial aspects within Ghana's industrial sector.

2. Theoretical Literature Review

As first conceptualized by Mitnick (1973), Agency theory describes the relationship between two entities: a principal and an agent. The principal delegates decision-making authority to the agent, who acts on the principal's behalf in dealings with third parties

(Ahmed et al., 2024; Musah et al., 2022). In financial contexts, key agency relationships include those between shareholders and managers and debt holders and shareholders (Musah et al., 2021). The theory addresses conflicts of interest and differing risk preferences between principals (e.g., shareholders) and agents (e.g., company executives).

One practical application of agency theory is the establishment of ACs, particularly in settings where agency costs are high. Qeshta et al. (2021) note that ACs enhance organizational communication between agents and principals. Consistent with agency theory, Musah et al. (2022) and Afenya et al. (2022) argue that ACs improve the accuracy of financial statements, thereby increasing their reliability. AC mitigates agency conflicts between managers and shareholders by overseeing internal audit functions, ensuring internal controls, and preventing managerial behaviours prioritizing personal interests over shareholder value (Alodat et al., 2023; Musah et al., 2021). Qeshta et al. (2021) further emphasize the significance of independent AC in generating unbiased financial reports and addressing disputes between management and external auditors. By supervising the selection of external auditors, audit committees enhance the credibility of financial statements and reduce information asymmetry. In doing so, they promote effective governance and incentivize managers to act in the organization's best interests.

Agency theory is particularly relevant here as it addresses the inherent conflicts between principals (shareholders) and agents (management), which can significantly impact firm profitability (Musah & Adutwumwaa, 2022; Fariha et al., 2022). Specifically, AC characteristics like size, independence, and financial expertise are crucial mechanisms within agency theory to mitigate agency problems (Hazzaa et al., 2024; Salehi et al., 2018). A larger AC can provide broader oversight, enhancing decision-making quality and reducing agency costs (Rahman et al., 2019). The independence of the AC ensures that the committee members can act without managerial influence, aligning their actions with shareholder interests and thus potentially increasing profitability ((Qeshtaa & Ali, 2020). Financial expertise is essential for comprehending complex financial information and effectively monitoring

management practices, safeguarding against mismanagement, and enhancing profitability (Bazhair, 2022; Fariha et al., 2022). To strengthen the theoretical grounding, the paper argues that these AC attributes mitigate agency conflicts and contribute to firm profitability, providing a clearer linkage between theory and empirical analysis.

3. Empirical Review and Hypothesis Development

3.1. Audit Committee Size and Firm Performance

The literature underscores the pivotal role of audit committee (AC) size in quality monitoring and its impact on firm performance (FP). Existing studies recommend maintaining an AC with more than three members to reduce fraudulent activities, as a larger committee size complicates collusion (Afenya et al., 2022; Rahman et al., 2019). Larger ACs also allow for the inclusion of diverse skills, expertise, and experiences, which contribute to improved performance (Ahmed et al., 2024; Ahdal & Hashim, 2022; Musallam, 2020). This diversity is recognized as critical for enhancing the quality of financial reporting and monitoring mechanisms, thereby reducing the risk of providing inaccurate information to stakeholders, including investors, shareholders, and regulators (Nouraldeem, 2024; Rahman et al., 2019; Musah et al., 2022). However, the optimal AC size for achieving these benefits remains unclear. Empirical findings from various jurisdictions and industries have produced mixed results. For instance, studies conducted in developing markets such as Ghana and Malaysia (e.g., Fariha et al., 2022; Agyei-Mensah, 2018; Kallamu & Saat, 2015) consistently report a significant positive relationship between AC size and FP. These studies argue that larger ACs in developing economies enhance monitoring effectiveness due to the incorporation of diverse expertise and the need for more robust governance frameworks to address institutional weaknesses.

In contrast, research in developed markets such as the United States and the United Kingdom (e.g., Al-ahdal & Hashim, 2022; Al-Jalahma, 2022; Qeshta et al., 2021) has produced mixed or negative findings. These studies suggest that excessively large committees may lead to inefficiencies, such as slower decision-making and higher audit fees, which could outweigh the potential benefits. Furthermore, firms in developed

markets often have stronger regulatory environments and institutional frameworks, which may reduce the need for larger ACs to ensure effective governance. The differences in findings between developed and developing markets highlight the contextual nature of AC effectiveness. Developing economies may benefit more from larger ACs due to weaker institutional controls and a greater need for oversight. Conversely, optimal AC size in developed economies may be smaller due to the efficiency of existing governance mechanisms and regulatory oversight. Despite these variations, a significant body of literature supports the positive influence of AC size on FP, emphasizing that larger committees leverage a diverse array of knowledge and experience to address complex issues and improve audit quality (Agyei-Mensah, 2018; Rahman et al., 2019; Oudat et al., 2021). Nonetheless, further research is required to establish the standard AC size that maximizes these benefits across different jurisdictions and industries. Building on this evidence, the study hypothesizes that:

H1: The size of the audit committee influences firm's performance

3.2. Audit Committee Independence and Financial Performance

The nexus between corporate governance and business performance, particularly concerning audit committee (AC) independence, remains a cornerstone in contemporary research, often framed through agency theory (Ahdal & Hashim, 2022; Al Farooque et al., 2019). Agency theory emphasizes potential conflicts of interest between shareholders and management, necessitating governance mechanisms to align divergent interests (Aljalalma et al., 2022; Qeshta et al., 2021). Within this framework, an independent AC is critical as a monitoring entity, mitigating agency conflicts through enhanced accountability and transparency (Musah et al., 2022). Greater AC independence is often associated with improved oversight, reduced agency costs, and better alignment between management decisions and shareholder interests (Singhania & Panda, 2025; Qeshta et al., 2021; Rahman et al., 2019). However, empirical findings on the relationship between AC independence and firm performance (FP) are inconclusive, varying across geographies and industries. A positive association between AC independence and FP is well-documented in developed economies such as the United States and Europe. For example, Ben Barka and Legendre (2017) found that

independent ACs in these regions enable more effective monitoring, lower agency costs, and enhance FP. Strong regulatory frameworks and enforcement mechanisms in these economies support the effective functioning of independent ACs, fostering improved governance outcomes.

Conversely, studies from developing economies, particularly in Asia and Africa, present mixed findings. Some studies report a positive relationship, linking AC independence to higher profitability through improved risk management and financial oversight (Kallamu & Saat, 2015). However, others reveal insignificant or negative correlations, attributing these outcomes to weaker regulatory environments, cultural attitudes toward governance, and entrenched management practices that limit the effectiveness of independent ACs (Qeshta et al., 2021; Ahdal & Hashim, 2022). For example, Qeshta et al. (2021) found no significant correlation between AC independence and FP among insurance companies in Bahrain, while Ahmed et al. (2024) and Aljalahma et al. (2022) reported a negative relationship in a similar context. These geographical variations highlight the importance of contextual factors, such as regulatory frameworks, enforcement mechanisms, and cultural perceptions of governance, in shaping the efficacy of AC independence. In developing economies, the lack of robust enforcement and entrenched power dynamics can dilute the potential benefits of independent ACs.

On the other hand, developed economies with stronger institutional frameworks are better positioned to realize the governance advantages of AC independence. From an agency theory perspective, a robust and unbiased AC fosters a governance environment that addresses information asymmetry, reduces agency costs, and ultimately enhances FP. While AC independence holds significant promise as a governance mechanism, its effectiveness is contingent on contextual factors, underscoring the need for tailored governance frameworks that account for regional and institutional differences. In light of these arguments, the study posits that:

H2: audit committee independence influence firm's performance of listed entities in Ghana

3.3. Audit Committee Meeting and Financial Performance

The relationship between audit committee (AC) meetings and business performance is critical to corporate governance dynamics, often analysed through agency theory (Qeshta et al., 2021; Garas & ElMassah, 2018). Agency theory highlights conflicts of interest between management and shareholders, necessitating governance mechanisms to mitigate agency costs (Nussah et al., 2022; Qeshta & Ali, 2020). AC meetings serve as a governance tool, providing a platform for monitoring internal controls, evaluating financial reporting, and reducing agency risks (Bazhair, 2022; Al-Jalahma, 2022; Juhmani, 2017). Empirical evidence suggests a positive relationship between frequent and effective AC meetings and improved firm performance (FP) (Zraiq & Fadzil, 2018). Studies from developed markets consistently report a positive correlation, particularly in the United States and Europe. Frequent AC meetings in these contexts are linked to enhanced oversight, better financial reporting quality, and reduced risk, supported by robust regulatory environments and established governance frameworks (Fariha et al., 2022; Zhou et al., 2018).

However, findings in emerging markets, such as Asia and Africa, are more varied. Some studies indicate a positive correlation between AC meeting frequency and FP, attributing this to gradually improving governance practices (Nouraldeen, 2024; Ahdal & Hashim, 2022; Kallamu & Saat, 2015). Conversely, other research reports negligible or negative impacts, often blaming perfunctory meetings that lack substantive discussions and follow-through (Qeshta et al., 2021; Rahman et al., 2019). In these regions, weaker regulatory environments and cultural norms surrounding corporate governance often limit the effectiveness of frequent meetings. These geographic discrepancies emphasize the role of contextual factors such as regulatory frameworks, cultural attitudes, and the quality of AC deliberations. In developed markets, where governance mechanisms are more established, frequent meetings are typically substantive and focused on improving financial reporting quality.

In contrast, in emerging markets, the absence of robust enforcement mechanisms may render frequent meetings symbolic, with limited impact on governance effectiveness. From an agency theory perspective, efficient AC meetings mitigate

information asymmetry, reduce opportunistic behaviour, and align management with shareholder interests (Nouraldeen, 2024). Regular, substantive meetings promote accountability and transparency, enhancing business performance by ensuring accurate financial reporting and better oversight. Based on the evidence above, the study posits that;

H3: Regular audit committee meetings are associated with improved firm's performance of listed firms in Ghana

3.4. Audit Committee Expertise and Financial Performance

Studies on audit committee (AC) expertise highlight its crucial role in reducing agency conflicts and improving business performance (FP) across different geographies (Salehi et al., 2018). In developed markets such as the United States and Europe, efficient governance procedures facilitated by expert ACs have significantly reduced knowledge asymmetry and conflicts of interest between shareholders and management (Musah et al., 2022; Aldamen et al., 2012). Empirical evidence from these regions consistently demonstrates that ACs with industry knowledge and competencies such as financial acumen, management expertise, and accounting proficiency positively impact FP (Puni & Anlesinya, 2020; Fariha et al., 2022). Specialized expertise enables ACs to navigate complex financial environments, enhance oversight quality, and promote sound decision-making within strong regulatory frameworks that further bolster governance effectiveness (Alodat et al., 2023). In contrast, studies conducted in emerging markets, particularly in Asia and Africa, provide more varied findings. Some research supports that specialized AC expertise improves financial reporting and reduces agency costs by strengthening oversight mechanisms (Nouraldeen, 2024; Gurusamy, 2017; Rahman et al., 2019). However, other studies highlight challenges unique to these regions, such as weaker regulatory environments, entrenched power dynamics, and cultural attitudes that downplay the importance of governance (Qeshta et al., 2021). These factors may dilute the potential benefits of AC expertise, resulting in a weaker or even negligible relationship between expertise and FP. For instance, Rahman et al. (2019) observed that ACs may lack the authority to enforce meaningful

changes despite their expertise in environments with less robust enforcement of governance policies.

Despite these regional variations, the universal importance of AC expertise remains evident. Specialized finance, accounting, and information technology knowledge enhances the committee's ability to navigate complex financial issues, improve transparency, and align shareholder and management interests, even in less-developed governance contexts. In emerging markets, this expertise becomes instrumental in compensating for regulatory and cultural deficiencies, promoting transparency, and improving FP. However, the degree of its impact is contingent upon the broader regulatory and cultural environment in which the AC operates. What emerges from the literature is the critical role of AC expertise in improving FP globally, even as variations in regional regulatory frameworks, cultural norms, and institutional capacities mediate its effectiveness. Further comparative research is needed to explore how these contextual factors shape the governance-performance nexus. Based on the evidence above, the study posits that;

H4: Financial expertise of audit committee members improves the firm's performance of listed entities in Ghana

4. Research Methods

The research design for this study employs a quantitative approach, serving as a structured blueprint for investigating the relationship between audit committee (AC) characteristics and firm performance (FP) in listed non-financial firms in Ghana. This design relies exclusively on secondary panel data to conduct quantitative analyses, allowing for statistical exploration of the relationships under study. Using secondary numerical data is consistent with the study's objective to provide robust, data-driven insights.

4.1 Population and Sampling

The population of interest comprises all firms listed on the Ghana Stock Exchange (GSE). However, the study focuses specifically on non-financial firms. The rationale for excluding financial institutions is grounded in their distinct regulatory environment and governance structures (Singhania & Panda, 2025). Financial institutions in Ghana,

such as banks and insurance companies, operate under stricter corporate governance regulations set by the Bank of Ghana and other regulatory bodies. These institutions are subject to specific directives regarding audit committee composition, reporting requirements, and risk management practices, which differ significantly from those of non-financial firms. Including financial institutions in the analysis could introduce bias and obscure the unique governance-performance dynamics within non-financial firms (Agyei-Mensah, 2018; Musah et al., 2022).

On the other hand, non-financial firms provide a more diverse and less regulated setting to explore the impact of AC characteristics on FP, making them suitable for examining corporate governance dynamics in a less constrained regulatory environment. This focus ensures that the findings are not confounded by sector-specific governance requirements, enabling a more generalizable analysis for non-financial entities.

The sample frame includes all non-financial firms listed on the GSE, and a random sampling technique is employed to ensure each firm has an equal chance of selection, minimizing selection bias. To ensure data reliability, the study specifically includes firms that have consistently traded for at least ten years from 2010 to 2020. This criterion addresses potential missing data issues and ensures completeness, as firms with incomplete or inconsistent financial data are excluded. Twenty listed manufacturing and trading firms meet these criteria and are included in the study. The sample size is determined based on the study's objectives and the panel data analysis requirements, as Patton et al. (2015) recommended. Panel data analysis benefits from a sample size that captures sufficient cross-sectional and time-series variation. Including 20 firms over ten years (2010–2020) provides a robust dataset, balancing the need for statistical power and practical constraints related to data availability.

4.2. Data Sources and Variables

The study relies on secondary data extracted from the audited annual reports of the selected firms, obtained from the GSE's database and company websites. These reports offer detailed information on corporate governance practices and financial performance metrics. Focusing on secondary data ensures objectivity and consistency, as the

information is derived from publicly available and verified sources. Panel data addresses heterogeneity among firms, allowing the study to account for both cross-sectional differences and temporal dynamics. The use of panel data offers several advantages, including reduced collinearity among variables, increased degrees of freedom, and improved efficiency in estimation. This approach also enables the explicit consideration of firm-specific factors, such as size and industry, that may influence the relationship between AC characteristics and FP.

4.3 Limitations and Mitigation Strategies

Potential limitations include the exclusion of financial institutions, which may limit the generalizability of the findings to the broader listed firm population. However, as discussed earlier, this exclusion is justified by the distinct regulatory frameworks governing financial institutions. Additionally, the reliance on secondary data may constrain the study's ability to capture qualitative aspects of AC dynamics. To address this, the study focuses on audited and publicly available reports to ensure data accuracy and reliability. Using a ten-year dataset mitigates concerns about short-term fluctuations and ensures a comprehensive analysis of trends.

The Statistical Model that was adopted is as follows;

The regression model, which assumed linearity, normality, constant, and independence, was

$$(ROA_t) = \alpha + \beta_1 INDP_{it} + \beta_2 CMT_{it} + \beta_3 CMS_{it} + \beta_4 FEXP_{it} + \epsilon_{it}.$$

Where:

ROA = Financial performance (Return on Assets)

α = constant

β = Regression coefficients

IND = AC independence

CMT = AC meeting

CMS = AC size

FEXP = AC financial expertise

ϵ_{it} = Error term

Table 1.
Measurement of variables

Variables	Measurement
IND	The ratio of non-executive directors on the committee
CMT	The number of times that the committee meets in a year
CMS	The number of directors on the committee
FEXP	The ratio of AC members with a background in accounting and finance

5. Analysis and Discussion of Findings

5.1. Descriptive Analysis

The first part of the study delves into descriptive statistics to scrutinize the impact of various AC features within the context of Ghana's non-financial entities. Under descriptive analysis, the focus is on understanding the average scores of the variables used for the analysis, their standard deviation, and their minimum and maximum points to provide the right context for the subsequent analysis.

Table 2.
Descriptive Statistics

Variables	Observation	Mean	Std. Dev.	Min	Max.	Obs.
ROA		0.151912	0.098579	0.01	0.49	220
INDEPENDENCE		0.744228	0.112869	0.44	0.91	220
COMMITTEE SIZE		3.445	0.112922	3	5	220
MEETING		4.341772	4.002839	2	6	220
EXPERTISE		0.697063	0.325603	0	1	220

The findings presented in Table 2 reveal significant insights into the characteristics of audit committees among the listed manufacturing firms in the sample. The results in Table 2 show that the average return on assets for listed non-financial firms in Ghana is 15%. This strongly indicates profitability and operational efficiency, suggesting that the company effectively utilizes its assets to produce earnings. A high ROA is generally viewed positively by investors and analysts as it reflects the company's ability to convert investments in assets into profits. On average, 74 percent of audit committee members are non-executive directors, which implies that almost two-thirds of audit committee members are independent directors. The results show that the average audit committee size is 3, with a maximum of 5 members. Furthermore, the findings indicate that, on average, audit committees meet about 4.3 times a year, with the minimum meeting being two and the maximum meeting being 6 times. Lastly, the descriptive statistics reveal that, on average, 69 percent of the listed manufacturing firms have audit committees with financial expertise, emphasizing a good adherence to corporate governance practices.

Analysis of relationships using a correlation matrix

Table 3.
Correlation Matrix

	1	2	3	4	5
1. ROA	1.0000.				
2. Independence	0.546	1.0000.			
3. Meetings	-0.404	-0.4957	1.0000.		
4. Committee Size	-0.4574	-0.1491	0.1491	1.0000.	
5. Expertise	0.4141	0.189	-0.1836	-0.1692	1.0000.

The independence of the AC and return on assets (ROA) appear to have a moderately favourable relationship, as indicated by the positive correlation of 0.546 between AC and FP. The number of AC meetings and their independence are weakly correlated, as seen by the negative correlation of -0.4957 between meetings and independence. The size of the AC and FP appears to have a moderately negative association, as indicated by the committee size's -0.4574 negative correlation with ROA.

The correlation between meetings and committee size is -0.1491, suggesting a weak negative link between meeting frequency and AC size. The AC's financial knowledge and independence have a weak positive link, as seen by the positive correlation 0.189. The committee size and expertise exhibit a weak negative correlation (-0.1836), indicating a relationship between the members' financial expertise and the AC's size. Although weak, audit committee expertise also revealed a positive correlation with firm profit. Overall, the correlation coefficient between the independent variables shows little to no evidence of multicollinearity, which is critical for regression analysis to produce reliable results.

5.2 Reliability Tests

The study conducted a number of tests to help determine the right model to use to ensure that the findings are reliable and internally consistent. The initial examination was the Hausman test, employed to determine the appropriate model selection between the fixed-effect model and the random-effect model.

Hausman Test

Test: Ho: difference in coefficients not systematic (Random effects)

$\chi^2(7) = 0.89$, $\text{Prob} > \chi^2 = 0.9964$

The econometric estimation process began with an Ordinary Least Squares (OLS) regression; however, limitations with pooled OLS, as discussed by Stimson (1985), prompted the need to address violations of key assumptions. Consequently, Fixed Effect (FE) and Random Effect (RE) models were estimated. The Hausman test was applied to determine which model to adopt, which examines whether individual and time effects correlate with the explanatory variables (Baltagi, 1998). The statistically significant result ($\text{Prob} > \chi^2 = 0.000$) led to the acceptance of Random Effects, indicating that individual and time effects are uncorrelated with the explanatory variables. Therefore, the study employed robust random effects for the final estimation.

A multicollinearity test using the Variance Inflation Factor (VIF) was conducted to verify that the independent variables—representing audit committee characteristics—did not suffer from high correlation. The results confirmed that all VIF values were well below the threshold of 10, with none exceeding 5. This indicates the absence of

multicollinearity, allowing each audit committee characteristic (e.g., size, independence, and financial expertise) to be analysed independently. Therefore, the model remains reliable, providing robust insights into how audit committee features affect firm profitability.

The researchers performed the Wooldridge test to ensure consistent parameter estimates and detect any potential correlation between residual terms, thereby indicating serial correlation. The test results revealed that the probability value associated with the F-distribution exceeds the 0.05 significance level. Consequently, the study fails to reject the null hypothesis, indicating no first-order autocorrelation. Therefore, the findings suggest no evidence of serial correlation within the model. Specifically, the Wooldridge Serial Correlation Test results are as follows:

Null Hypothesis (Ho): No first-order autocorrelation; F value = 0.8; Prob > F = 5.800.

Table 4.
Robust Random Effect Regression Results

Variables	Coef.	Std Error	P-values
Constant	-11.55355	2.914503	0.000
COMMITTEE SIZE	-.0086919	.0091672	0.343
INDEPENDENCE	11.61799	2.867375	0.000
MEETINGS	-.009582	.0034104	0.005
EXPERTISE	.0249168	.00414447	0.000
R-square	= 0.4637		
Wald chi2 (5)	= 33.40		
Prob > chi2	= 0.0000		

To ensure the efficiency of regression estimates, one of the crucial assumptions is the constant variance of the error terms, referred to as homoscedasticity. Any deviation from this assumption can lead to inefficient parameter estimates. Heteroscedasticity occurs when the variance of the error terms varies across observations, violating the constancy condition ($\text{var}(\epsilon_i) \neq$). To test for this violation, the study employed the

Breusch-Pagan test, with the following results reported in Table 4.4: Heteroskedasticity Test - Fitted values of ROA; Chi2 (1); Prob > chi2 - 86.47; 0.00. The statistical significance (Prob > chi2 = 0.00) indicates a rejection of the null hypothesis, suggesting the presence of heteroscedasticity

5.3 Discussion of Findings

5.3.1. Audit Committee Size and Firm Performance

The study revealed a significant negative relationship between audit committee (AC) size and firm performance (FP), measured by return on assets, at a 5% significance level. While this finding contradicts the expectation of a positive association (Sighania & Panda, 2025; Nouraldeen, 2024), it aligns with studies such as Al-Ahmed et al. (2024), Jalahma (2022), and Wakaba (2014), which highlighted inefficiencies associated with larger ACs and hence reported a negative association between the two variables. Agency theory provides a plausible explanation: as AC size increases, coordination and communication challenges arise, leading to free ridership, reduced monitoring effectiveness, and increased agency costs (Fariha et al., 2022). Globally, debates on AC size centre on the trade-off between diversity and efficiency. In developed markets, where governance structures are more mature and members are often highly qualified, larger ACs may effectively leverage diverse perspectives to improve oversight (Rahman et al., 2019). However, in emerging markets like Ghana, where regulatory oversight is weaker and AC member qualifications may vary, larger committees may face operational inefficiencies and diluted accountability. These findings suggest defining an optimal AC size that balances diversity with effectiveness. For Ghana and other emerging markets, governance reforms should focus on training AC members and ensuring that larger committees operate within a clear framework that fosters accountability and collaboration.

5.3.2. Audit Committee Independence and Firm Performance

The study found a statistically significant positive relationship between AC independence and FP at a 1% significance level, consistent with studies such as Sighania & Panda (2025), Abdullah et al. (2014), and Aanu et al. (2014). Independent ACs, free from internal pressures, enhance financial oversight and reduce managerial

opportunism, as posited by agency theory (Bazhair, 2022). This result underscores the global consensus that independence is a cornerstone of effective corporate governance, enabling ACs to act in shareholders' best interests. In Ghana, where governance practices are evolving, the observed positive impact of AC independence reflects the effectiveness of efforts to align with international governance standards. Corporate governance reforms in emerging markets should prioritize mandating independent membership on ACs, supported by robust enforcement mechanisms. Furthermore, policies encouraging diversity among independent directors, including expertise in finance, accounting, and industry-specific areas, could amplify the benefits of independence and strengthen the governance framework.

5.3.3 Frequency of Audit Committee Meetings and Firm Performance

A negative relationship was observed between AC meeting frequency and FP at a 5% significance level. The significant negative effect of AC meetings and firm performance is consistent with results from Bazhair (2022). This finding contrasts with studies from developed markets, such as those by Queshta et al. (2021) and Abdullah et al. (2014), which found no significant relationship. The results highlight the importance of contextual factors in shaping the effectiveness of AC meetings. In Ghana, frequent meetings may reflect inefficiencies in governance practices, where meetings focus on routine or symbolic issues rather than substantive decision-making (Rahman et al., 2019). This could be exacerbated by weaker regulatory oversight and a lack of structured agendas to guide discussions. Globally, governance debates emphasize that the quality of AC meetings is more critical than their frequency. For emerging markets, reforms should focus on improving the substance and focus of AC meetings. Introducing regulatory guidelines for meeting agendas, documenting key decisions, and evaluating meeting outcomes could enhance their effectiveness. Training AC members on governance priorities and decision-making processes may also ensure that meetings contribute meaningfully to oversight and FP.

5.3.4 Financial Expertise of Audit Committee Members and Firm Performance

The study found a significant positive relationship between the financial expertise of AC members and FP at a 1% significance level. This finding aligns with global

studies such as Alodat et al. (2023), Aanu et al. (2014), and Rahman et al. (2019), which underscore the importance of financial expertise in navigating complex financial reporting and governance challenges. Agency theory suggests that financially knowledgeable AC members are better equipped to reduce information asymmetry, hold management accountable, and ensure adherence to reporting standards. The findings, however, contradict the results of Nouraldeen (2024), who found a significant negative effect of AC financial expertise and firm performance. In Ghana, this positive relationship highlights the growing recognition of financial competence as a key driver of AC effectiveness. However, challenges remain in ensuring the availability of qualified individuals to serve on ACs. Governance reforms in Ghana should prioritize capacity-building initiatives, such as certification programs for AC members and partnerships with professional accounting bodies to develop financial expertise. Mandating a minimum level of financial competence for AC membership could further enhance oversight and improve FP.

5.3.5 Broader Implications for Corporate Governance

The study's findings contribute to global debates on corporate governance by highlighting the critical role of contextual factors in shaping the effectiveness of ACs. While independence and financial expertise consistently enhance FP, the negative effects of larger ACs and frequent meetings in Ghana emphasize the importance of tailoring governance practices to local contexts. In emerging markets, weaker regulatory frameworks, cultural attitudes toward governance, and resource constraints often limit the effectiveness of successful governance mechanisms in developed markets. To address governance challenges in Ghana and similar markets, reforms should prioritize strengthening regulations by setting clear guidelines for the audit committee (AC) size, independence, and qualifications. Capacity-building initiatives, such as training and professional development for AC members, should enhance expertise and decision-making. Emphasis should shift from the frequency of AC meetings to the quality of discussions and decision-making processes. Additionally, governance models should be tailored to local regulatory and cultural contexts, ensuring practicality and effectiveness while aligning with global best practices.

6. Conclusion, Recommendations, and Limitations

6.1. Conclusion

The study provides important insights consistent with agency theory concepts by illuminating the complex relationships between AC attributes and the FP of listed manufacturing firms on the Ghana Stock Exchange. The results highlight how crucial AC independence, regularity of meetings, and experience are to these companies' financial results. According to the negative correlation between the two variables, a larger AC may result in a worse FP. This is consistent with agency theory, highlighting the difficulties that larger committees may present, including the issue of free riders. On the other hand, the agency theory, which argues that an independent committee may better protect shareholder interests and enhance FP, is supported by the positive correlation between audit committee independence and FP.

Furthermore, the agency theory emphasizes the value of specialized knowledge and abilities in minimizing agency conflicts, which aligns with our study's finding that audit committee competence benefits FP. Together, these results support the applicability of the agency theory to comprehending how ACs influence listed industrial firms' financial performance in Ghana. To sum up, the ongoing discoveries of noteworthy correlations among audit committee metrics emphasize the critical function that audit committees play in shaping financial outcomes. Our research contributes valuable insights to the existing literature, emphasizing the importance of structuring and empowering ACs that align with agency theory principles for enhanced financial outcomes in the listed non-financial firms on the Ghana Stock Exchange..

6.2. Recommendations

The results have several policy implications, which may result in the following recommendations

First, the negative association between AC size and FP suggests a careful balance is needed. The size of the AC should be neither too large nor too small. An excessively large committee may lead to challenges such as free rider problems, while a too-small committee might lack the diversity and expertise needed for effective financial

oversight. Striking the right balance is essential for protecting the accounting and finance processes and, consequently, enhancing firm performance.

Secondly, while a higher proportion of non-executive directors is considered essential for ACs, the study emphasizes that this alone is not a significant guarantee of improved FP. Firms should not solely focus on achieving more non-executive directors on the AC. Instead, they should prioritize increasing the level of expertise within the committee. Expertise, skills, and experience are vital components that contribute to the committee's effectiveness in financial oversight.

In addition to the above, the study suggests that various factors should be thoughtfully considered when determining the size of the AC. These factors include directors' skills, experience, and expertise, the effectiveness of discussions and decision-making processes, fair representation of diverse interests, and the ratio of executive to non-executive directors. This holistic approach to determining committee size ensures a well-rounded and effective AC that positively influences financial performance.

Finally, specific recommendations based on the findings above could be related to the size of the firms. For instance, for larger firms, the paper recommends the establishment of ACs with a higher proportion of independent members and individuals with financial expertise to strengthen governance and enhance profitability. In contrast, smaller firms could be encouraged to focus on AC training and capacity building, ensuring that even with fewer resources, they have competent oversight in financial matters. Regulatory bodies like the Securities and Exchange Commission (SEC) in Ghana could be advised to adopt guidelines that require firms to disclose audit committee characteristics, thereby promoting transparency and better governance. Tailoring recommendations in this way would make the findings more practical and relevant for different firm sizes, sectors, and regulatory environments in Ghana.

6.3. Limitations of The Study

The study's reliance on secondary data from listed non-financial institutions in Ghana presents several limitations. Firstly, secondary data may not fully capture all relevant variables or nuances of FP and governance practices, potentially leading to incomplete or skewed analyses. Additionally, the focus on non-financial institutions

excludes a significant portion of the economy, potentially limiting the generalizability of the findings across different sectors. Data from listed companies may not reflect the realities of unlisted or smaller firms operating under different governance structures and regulatory environments. Furthermore, the context of Ghana's emerging market, with its unique economic, regulatory, and cultural factors, may not allow for straightforward comparisons or applications to other geographies.

References

- Aanu, O. S., Odianonsen, I. F., & Foyeke, O. I. (2014). An empirical analysis of the effectiveness of the audit committee and firm financial performance in Nigeria. *Journal of Accounting and Auditing*, 2014, 1. DOI: 10.5171/2014.301176
- Afenya, M. S., Arthur, B., Kwarteng, W., & Opoku, P. (2022). The impact of audit committee characteristics on audit fees: Evidence from Ghana. *Cogent Business & Management*, 9(1), 2141091. <https://doi.org/10.1080/23311975.2022.2141091>
- Agyei-Mensah, B. K. (2018). Impact of corporate governance attributes and financial reporting lag on corporate financial performance. *African Journal of Economic and Management Studies*, 9(3), 349-366. <https://doi.org/10.1108/AJEMS-08-2017-0205>
- Ahmed, M. M. A., Hassan, D. K. A. E. S. A., & Magar, N. H. A. (2024). The moderating role of board gender diversity on the relationship between audit committee characteristics and financial performance: evidence from Egypt. *Journal of Financial Reporting and Accounting*. <https://doi.org/10.1108/JFRA-12-2023-0746>
- Al-ahdal, W. M., & Hashim, H. A. (2022). Impact of audit committee characteristics and external audit quality on firm performance: evidence from India. *Corporate Governance: The International Journal of Business in Society*, 22(2), 424-445. <https://doi.org/10.1108/CG-09-2020-0420>
- Al-Jalahma, A. (2022). Impact of audit committee characteristics on firm performance: Evidence from Bahrain. *Problems and Perspectives in Management*, 20(1), 247-261. [http://dx.doi.org/10.21511/ppm.20\(1\).2022.21](http://dx.doi.org/10.21511/ppm.20(1).2022.21)
- Alodat, A. Y., Al Amosh, H., Khatib, S. F., & Mansour, M. (2023). Audit committee chair effectiveness and firm performance: The mediating role of sustainability disclosure. *Cogent Business & Management*, 10(1), 2181156. <https://doi.org/10.1080/23311975.2023.2181156>
- Alqatamin, R. M. (2018). Audit committee effectiveness and company performance: Evidence from Jordan. *Accounting and Finance Research*, 7(2), 48. doi:10.5430/afr.v7n2p48

- Boachie, C. (2023). Corporate governance and financial performance of banks in Ghana: the moderating role of ownership structure. *International Journal of Emerging Markets*, 18(3), 607-632. doi.org/10.1108/IJOEM-09-2020-1146
- Coleman, M., & Wu, M. (2021). Corporate governance mechanisms and corporate performance of firms in Nigeria and Ghana. *International Journal of Productivity and Performance Management*, 70(8), 2319-2351. doi.org/10.1108/IJPPM-01-2020-0020
- Fariha, R., Hossain, M. M., & Ghosh, R. (2022). Board characteristics, audit committee attributes, and firm performance: empirical evidence from an emerging economy. *Asian Journal of Accounting Research*, 7(1), 84-96. doi.org/10.1108/AJAR-11-2020-0115
- Gurusamy, P. (2017). Board characteristics, audit committee, and ownership structure influence on the firm performance of manufacturing firms in India. *International Journal of Business and Economics Research*, 6(4), 73-87. doi: 10.11648/j.ijber.20170604.16
- Bazhair, A. H. (2022). Audit committee attributes and financial performance of Saudi non-financial listed firms. *Cogent Economics & Finance*, 10(1), 2127238. <https://doi.org/10.1080/23322039.2022.2127238>
- Hazzaa, O. T., Abdullah, D. F., & Sadaa, A. M. (2024). Influence of CEO characteristics and audit committee on financial performance: evidence from Iraq. *Journal of Open Innovation: Technology, Market, and Complexity*, 10(2), 100290. <https://doi.org/10.1016/j.joitmc.2024.100290>
- Juhmani, O. (2017). Audit committee characteristics and earnings management: The case of Bahrain. *International Journal of Accounting and Financial Reporting*, 7(1), 11-31. doi:10.5296/ijaf.v7i1.10447
- Kyere, M., & Ausloos, M. (2021). Corporate governance and firms' financial performance in the United Kingdom. *International Journal of Finance & Economics*, 26(2), 1871-1885. doi.org/10.1002/ijfe.1883
- Mitnick, B. M. (1973). Fiduciary rationality and public policy: The theory of agency and some consequences. In *the 1973 Annual Meeting of the American Political Science Association, New Orleans, LA. In Proceedings of the American Political Science Association*. <http://dx.doi.org/10.2139/ssrn.1020859>
- Musah, A., & Adutwumwaa, M. Y. (2021). The effect of corporate governance on the financial performance of rural banks in Ghana. *International Journal of Financial, Accounting, and Management*, 2(4), 305-319. doi.org/10.35912/ijfam.v2i4.336
- Musah, A., Gapketor, E. D., & Anokye, F. K. (2018). Determinants of internal audit effectiveness in State-Owned Enterprises (SOEs) in Ghana. *The Journal of Accounting and Management*, 8(1), 52-68. <http://hdl.handle.net/11159/3068>

- Musah, A., Padi, A., & Baah, D. (2021). Corporate governance, ownership structure, and gender diversity in bank risk-taking behavior in Ghana. *Ghanaian Journal of Economics*, 9(1), 50-73. doi/abs/10.10520/ejc-ghajecon_v9_n1_a3
- Musah, A., Padi, A., & Okyere, B. (2022). Corporate governance, gender diversity, audit committee characteristics, and audit fees in Ghana. *Academy of Accounting and Financial Studies Journal*, 26(1), 1-17.
- Musallam, S. R. (2020). Effects of board characteristics, audit committee, and risk management on corporate performance: evidence from Palestinian listed companies. *International Journal of Islamic and Middle Eastern Finance and Management*, 13(4), 691-706. doi.org/10.1108/IMEFM-12-2017-0347
- Nouraldeem, R. M. (2024). The financial performance of Lebanese banks up to the financial crisis: Do audit committee characteristics and ownership concentration matter?. *EuroMed Journal of Business*. <https://doi.org/10.1108/EMJB-07-2023-0199>
- Oudat, M. S., Ali, B. J., & Qeshta, M. H. (2021). Financial performance and audit committee characteristics: An empirical study on the Bahrain services sector. *Journal of Contemporary Issues in Business and Government*, 27(2), 4279. Retrieved from <https://cibgp.com/au/index.php/1323-6903/article/view/134>
- Owiredu, A., & Kwakye, M. (2020). The effect of corporate governance on the financial performance of commercial banks in Ghana. *International Journal of Business and Social Science*, 11(5), 18-27. doi:10.30845/ijbss.v11n5p3
- Padi, A., & Musah, A. (2022). The influence of corporate governance practices on financial performance of small and medium-sized enterprises in Ghana. *The Indonesian Journal of Accounting Research*, 25(2), 249-270. DOI: <http://doi.org/10.33312/ijar.607>
- Patton, C., Sawicki, D., & Clark, J. (2015). *Basic methods of policy analysis and planning-- Pearson eText*. Routledge. doi.org/10.4324/9781315664736
- Puni, A., & Anlesinya, A. (2020). Corporate governance mechanisms and firm performance in a developing country. *International Journal of Law and Management*, 62(2), 147-169. doi.org/10.1108/IJLMA-03-2019-0076
- Qeshta, M. H., Alsoud, G. F. A., Hezabr, A. A., Ali, B. J., & Oudat, M. S. (2021). Audit committee characteristics and firm performance: Evidence from the insurance sector in Bahrain. *Revista Geintec-Gestao Inovacao E Tecnologias*, 11(2), 1666-1680.
- Qeshtaa, M., & Ali, B. J. (2020). The moderating effect of the effectiveness of the audit committee between ownership concentration and intellectual capital disclosures among companies in the Gulf Cooperation Council. *International Journal of Psychosocial Rehabilitation*, 24(1), 5979-5986.
- Rahman, M. M., Meah, M. R., & Chaudhory, N. U. (2019). The impact of audit characteristics on firm performance: an empirical study from an emerging economy. *The Journal of*

Asian Finance, Economics and Business, 6(1), 59-69.
DOI: 10.13106/jafeb.2019.vol6.no1.59

- Sarpong-Danquah, B., Gyimah, P., Afriyie, R. O., & Asiamah, A. (2018). Corporate governance and firm performance: An empirical analysis of manufacturing listed firms in Ghana. *Accounting and Finance Research*, 7(3), 111-118. doi:10.5430/afr.v7n3p111
- Singhania, A. K., & Panda, N. M. (2025). Does audit committee composition influence firm performance? Evidence from the top NSE-listed non-financial companies of India. *Asian Journal of Accounting Research*, 10(1), 2-18. <https://doi.org/10.1108/AJAR-10-2023-0333>
- Wakaba, R. (2014). *Effect of audit committee characteristics on financial performance of companies listed at the Nairobi securities exchange* (Doctoral dissertation, University of Nairobi).
- Zhou, H., Owusu-Ansah, S., & Maggina, A. (2018). Board of directors, audit committee, and firm performance: Evidence from Greece. *Journal of International Accounting, Auditing and Taxation*, 31, 20-36. doi.org/10.1016/j.intaccudtax.2018.03.002
- Zraiq, M., & Fadzil, F. (2018). The impact of audit committee characteristics on firm performance: Evidence from Jordan. *Scholar Journal of Applied Sciences and Research*, 1(5), 39-42.

intentionally blank