

Abstract

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MEASURING THE EFFECT OF THE BOARD OF DIRECTORS and AUDIT COMMITTEE CHARACTERISTICS ON FIRM FINANCIAL PERFORMANCE IN EGYPT

Corporate governance mechanisms are formed of different building blocks the board of directors and audit committees are considered to be of the main ones. Nowadays, there has been a significant change, worldwide, in the guidelines and relationships connecting the shareholders, the boards, and the corporate management. The size of foreign investment attracted to Egypt, being an evolving market, has been growing in the past ten years. Corporate governance quality and firm performance are considered among the most important factors for investors in the Egyptian market. This research investigates the influence of board of directors and audit committee characteristics on the firm's financial performance. Nine attributes have been revealed from the literature review that might affect the improvement of a firm's financial performance. In corporate governance, these attributes are categorized into board of directors' characteristics: board independence, size, CEO duality, director ownership, and board meetings frequency and audit committee related characteristics: size, audit committee independence, meeting frequency, and financial expertise. Two models are constructed and 56 firms listed on the Egyptian stock exchange are used in this research as a sample for testing these models. The research covers a nine-year period (2004-2012). Nine hypotheses are derived from the two models. GLS (random effects) regression is used to test these hypotheses. The overall results revealed that board and audit committee characteristics affect a firm's financial performance. The results reveal that board size, meetings frequency and CEO duality are positively and significantly associated with firm performance. Furthermore, audit committee independence, frequency of meetings and financial expertise have a significant positive association with firm performance, while audit committee size has a considerably negative association with firm performance. This research contributes to the literature regarding how corporate governance improves a firm's financial performance in Egypt. Participants in the stock market would benefit from the results when evaluating the board of directors and the audit committee roles in improving the firm's financial performance. Regulators can use the findings of this research to help them identify the essential attributes of corporate governance and to evaluate the board of directors and audit committee governance practices.