“The relationship between audit committee characteristics and corporate value creation: Evidence from Moroccan listed companies”

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THE RELATIONSHIP BETWEEN AUDIT COMMITTEE CHARACTERISTICS AND CORPORATE VALUE CREATION: EVIDENCE FROM MOROCCAN LISTED COMPANIES

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Abstract

Corporate governance mechanisms have progressively played a crucial role in value creation, particularly in emerging markets where there is information asymmetry and agency issues. They have been considered strategic levers for enhancing the value creation of firms. Of these mechanisms, the audit committee is identified as a crucial asset for facilitating good corporate governance in firms. This study examines how the characteristics of the audit committee influence value creation in Moroccan public firms. panel data for 44 Casablanca Stock Exchange listed companies between 2022 and 2024, we use static panel regression models to investigate the relationship between audit committee attributes and two value creation proxies: market value added (MVA) and return on equity (ROE). The results show that independence, skill, size, and frequency of audit committee meetings all play significant roles in greater value creation. Particularly, independence has the most significant positive effect on MVA and ROE. The expertise of the committee has a positive effect on MVA, while its size has a positive effect on both indicators. Meeting frequency significantly improves ROE but makes no difference to MVA. These results suggest that effective audit committees are excellent governance mechanisms capable of reducing information asymmetries, enhancing the quality of financial reporting, and thereby building shareholder value in the Moroccan context.

Keywords audit committee characteristics, corporate governance, value creation, emerging markets, panel data analysis, financial performance, Morocco

JEL Classification G32, G34, M42, C23

INTRODUCTION

Financial markets are more dynamic, regulatory demands are growing, and stakeholders are more demanding for transparency and accountability (El Badri et al., 2025a). In such an atmosphere, corporate governance mechanisms are no longer compliance tools but strategic performance and long-term sustainability determinants (Mondal & Sahu, 2025; El Badri et al., 2025b). In the governance structure, the audit committee stands out as the pivotal oversight body that links boards, the management, auditors, and investors (Faiteh et al., 2024a).

A series of governance failures and accounting scandals has highlighted the price of weak oversight – ranging from reporting failures to widespread value destruction – hence supporting regulatory and investor interest in audit committee effectiveness (Al-Matari et al., 2014; Dim & Joshua, 2021). Based on agency theory, audit committees are structured as a mechanism of oversight that mitigates conflict caused by the ownership-control separation, lowers agency costs, and facilitates reporting credibility (Jensen & Meckling, 1976; Zraiq & Fadzil, 2018; Faiteh & Aasri, 2022b). Yet efficacy is not guaranteed: it depends on observable design characteristics (most importantly, independence, financial expertise, size, and frequency of meetings) whose impact may be conditioned on the institutional environment (Al-Mamun et al., 2014; Ashari & Krismiaji, 2020).

Such reliance is salient in emerging nations, where ownership concentration, enforcement stringency, and disclosure culture affect the returns to governance structure (Al-Matari et al., 2016; Al-Mamun et al., 2014). Morocco offers a suitable setting: listed firms have lengthy formal governance structures, yet heterogeneity in audit committee composition and activity remains. Understanding whether – and through what attributes – audit committees contribute value is therefore an open scientific question for boards, regulators, and investors in these environments.

1. LITERATURE REVIEW

Audit committees are theorized to reduce agency costs through improved board oversight of financial reporting and internal control, with potential spillovers to investment efficiency and market valuation. Beyond monitoring, resource-dependence theory argues that committees serve as conduits for specialized knowledge and external linkages that improve risk oversight and strategic decision-making. Within this conceptual framework, four design features emerge in the literature as prime candidates influencing effectiveness: independence, financial expertise, size, and meeting frequency.

Audit committee members' independence is one of the cornerstones of good corporate governance, and an immense literature attests its value in the quality of financial reporting and company performance. Independent directors are less likely to have conflicts of interest and are more objective, and thus can supervise the behavior of the administration (Seth & Saxena, 2025).

Empirical literature on the value-generating association of the independence of the audit committee yields inconclusive findings. Aanu et al. (2014), and Seth and Saxena (2025) reported positive correlations between independence and company performance, whereas others found insignificant correlations. The discrepancy might be due to differences in institutional conditions, measurement methods, or sample qualities.

The effectiveness of independent audit committees can be particularly potent in emerging markets where regulation is easier and institutional investor presence is lighter. In such environments, independent committee members can fulfill an especially critical gatekeeper function in ensuring financial reporting integrity and protecting minority shareholder interests.

Technical complexity in risk management and financial reporting demands expertise from the audit committee members. The members' financial experience enables them to understand complex transactions, challenge accounting policies, and estimate internal control effectiveness (Seth & Saxena, 2025).

Studies continue to announce positive relationships between the financial expertise of the audit committee and multiple performance metrics. Cohen et al. (2008) reflected the way in which financial expertise improves the quality of oversight and decision-making procedures. Dhaliwal et al. (2010) and Seth and Saxena (2025) also verified that the organizations with the financially qualified audit committees possess better earnings quality and reduced cost of capital.

The potential for value creation in the expertise of the audit committee extends beyond the monitoring of financial reporting to matters of strategic direction, risks, and performance monitoring. The members with expert skills can deliver useful advice on industry best practices, potential risks, and future growth prospects, and thus create value in the long run.

The optimal size of the audit committee is a compromise between the effectiveness of decision-making and diversity of opinion (Musa et al.,

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2025). Big committees can offer greater diversity in experience and a more efficient oversight role, but are likely to have the problem of coordination and free riding.

Theoretical argument on committee size yields competing rationale. Resource dependence theory would argue that a large committee puts the company in a position of wider networks and experience, whereas organizational behavior texts caution inefficiencies inherent in increases in group size.

Empirical studies on the optimal size of the audit committee are also mixed. Some studies report positive relations between committee size and performance (Haddad et al., 2021; Kwamboka et al., 2025), whereas others report negative and insignificant relations (Ashari & Krismiaji, 2020). The mixed findings suggest the optimal size of the committee may depend on the unique conditions in the firm, such as organizational complexity, industry, and institutional environment.

Audit committee meeting regularity can be used as a proxy measure for diligence and dedication to the oversight responsibility (Haddad et al., 2021; Kwamboka et al., 2025). Increased meetings should, in theory, provide earlier identification and resolution of concerns, better communication with the auditor and management, and more frequent oversight of efforts at remediation.

Research supports positive associations between meeting frequency and governance quality. Abbott et al. (2004) find that more frequent committee meetings are associated with lower likelihoods of financial restatements, while Xie et al. (2003) report negative associations between meeting frequency and earnings management.

Yet, the frequency of meetings by itself will not guarantee effectiveness without attendant increases in meeting quality, preparation by members, and discussions on substantive matters. The trick is in striking a balance between meeting frequency and other committee activities and making sure that more meetings are converted into better outcomes.

Thus, this paper discusses how certain audit committee attributes are associated with value creation without assuming universal "best practice," as it acknowledges that what can be applied in developed markets might not necessarily apply in a mechanical manner to emerging settings (Al-Mamun et al., 2014; Ashari & Krismiaji, 2020). The discussion is placed in the context of Moroccan listed firms explored in this paper. The hypotheses are:

H1: *Audit committee independence has a positive impact on corporate value creation.*

H2: *Audit committee financial expertise has a positive effect on corporate value creation.*

H3: *Audit committee size positively relates to corporate value creation.*

H4: *Audit committee meeting frequency positively affects corporate value creation.*

2. METHODOLOGY

2.1. Sample and data collection

This study employs a large sample of 44 industrial and commercial companies listed on the Casablanca Stock Exchange between 2022 and 2024. The sampling is according to a purposive sampling strategy following certain criteria:

(1) continuous listing over the study period;

(2) availability of complete financial and governance data,

(3) covering significant industrial and commercial sectors, and

(4) sufficient market capitalization to render the data credible.

The three-year period was chosen to capture prevailing governance practices, but also with a sufficient amount of temporal variation to apply panel data analysis. Data were obtained from different sources, including company annual reports, financial statements, corporate governance reports, and the Casablanca Stock Exchange database. Utilizing several sources ensures data accuracy and comprehensiveness.

2.2. Variable measurement

Market value added (MVA), as a dependent variable, is calculated as the difference between market capitalization and economic capital. MVA shows the market's premium for shares in a company over invested capital. MVA shows the value added judgments from market participants about the potential of the management team in generating value in excess of invested resources (Faiteh & Aasri, 2023; Roque et al., 2021).

Return on equity (ROE), as a dependent variable, is calculated as net income divided by total shareholders' equity. ROE indicates the accounting-based profitability in terms of shareholder investment. The measure reflects the efficiency of the management in generating the return for the equity holders (Faiteh & Aasri, 2022a).

Audit committee independence (IAC), as an independent variable, is a dummy variable that equals 1 if two-thirds of the members in the audit committee are non-executive directors, and equals 0 otherwise. The threshold corresponds to international best practices and regulatory guidelines in committee independence (Faiteh et al., 2024b; Kwamboka et al., 2025).

Audit committee expertise (EAC), as an independent variable, is the cumulative count of the members with a professional background in finance, accountancy, auditing, or administration. It indicates the readily available technical competence in the committee for effective monitoring (Kwamboka et al., 2025; Musa et al., 2025).

Audit committee size (SAC), as an independent variable, is the number of members in the audit committee. The variable captures the human resources committed to the oversight functions (Seth & Saxena, 2025; Musa et al., 2025).

Meeting frequency (MF), as an independent variable, is the total number of meetings conducted in the annual fiscal year by the audit committee. These are the measures of proxy for diligence and dedication to oversight responsibility (Kwamboka et al., 2025).

Firm size (FS), as a control variable, is the natural logarithm of total assets, with adjustment for potential value creation and governance efficiency effect due to company size.

2.3. Econometric models

We use static panel data regression models to investigate the association between value creation measures and the characteristics of the audit committee. Panel data approach enables us to control unobserved heterogeneity at the firm level while capitalizing on unobserved cross-sectional and time-series variations in the data.

Model 1:

$$MVA_{it} = \beta_0 + \beta_1 IAC_{it} + \beta_2 EAC_{it} + \beta_3 SAC_{it} + \beta_4 MF_{it} + \beta_5 FS_{it} + \varepsilon_{i,t}, \quad (1)$$

Model 2:

$$ROE_{it} = \beta_0 + \beta_1 IAC_{it} + \beta_2 EAC_{it} + \beta_3 SAC_{it} + \beta_4 MF_{it} + \beta_5 FS_{it} + \varepsilon_{i,t}. \quad (2)$$

The method employs the static panel data techniques with appropriate specification tests for determining the best estimation method. Fisher tests confirm the appropriateness of panel data methodologies over pooled ordinary least squares. Hausman tests guide the selection process between the application of the fixed and random effects models based on the consistency and efficiency levels of the estimators.

Diagnostic checks prior to estimation involve multicollinearity checks with Variance Inflation Factors (VIF), some form of heteroscedasticity testing with Breusch-Pagan tests, and autocorrelation checks with Wooldridge tests. Corrective action follows if classical assumption violations are encountered.

3. RESULTS

Table 1 presents descriptive statistics for our sample of 129 firms. For the MVA variable, the mean is 16.94 and the standard deviation is 8.35, indicating some dispersion of values around the mean. The minimum value is 0, while the maximum value is 25.36, indicating heterogeneity in market value creation for the firms in our analysis. The

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Table 1. Descriptive statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
MVA	129	16.94364	8.349092	0	25.36563
ROE	129	0.1369132	0.256642	–0.3519	2.4836
IAC	129	0.7751938	0.4190821	0	1
EAC	129	0.9302326	0.7622545	0	2
SAC	129	2.976744	1.51794	1	6
MF	128	2.648438	1.10539	1	6
Size	129	20.86833	1.94946	14.23093	24.37982

Note: MVA = Market value added; ROE = Return on equity; IAC = Audit committee independence; EAC = Audit committee expertise; SAC = Audit committee size; MF = Meeting frequency; Size = Firm size.

ROE variable presents a mean of 0.14 and a standard deviation of 0.25, which shows that the return on equity of the companies analyzed is less dispersed around the mean. In other words, most of the companies in the sample have relatively close ROE values to each other, despite the existence of negative and positive deviations. The EAC and IAC variables have means of 0.77 and 0.93 and standard deviations of 0.42 and 0.76, respectively, suggesting diversity in the composition and experience of the firms' audit committees. SAC has an average of 2.98 members, a suggestion of a fairly standard committee size. Finally, the MF variable takes on average 2.65 meetings per year, with a range of from 1 to 6 meetings. In contrast, the size variable, measured by the logarithm of total assets, has an average of 20.87 with moderate dispersion.

Table 2 displays the outcomes of the multicollinearity diagnostic examination conducted for both econometric specifications. Regarding the first model, the IAC variable demonstrates a Variance Inflation Factor (VIF) of 1.53 coupled with a tolerance value of 0.654781, suggesting the presence of some degree of collinearity, though this level remains within moderate boundaries. The SAC variable exhibits a VIF of 1.35 alongside a tolerance of 0.743470, which falls within acceptable statistical thresholds. Additional variables in the model, including EAC, MF, and Size, demonstrate VIF values ranging between 1.06 and 1.14, thereby indicating minimal multicollinearity concerns. Given that the mean VIF for Model 1 stands at 1.23, this specification does not present significant multicollinearity issues that would compromise the reliability of our estimates.

With regard to the model with ROE as the dependent variable, the multicollinearity test shows an average VIF threshold of 1.20, with VIFs below 5 for all variables, leading us to conclude that there is no multicollinearity in this model (Hair, 2018).

Before applying panel data, it is essential to ensure the application of this type of econometric model. Here, there are various tests that can be utilized, including the Fisher test or the Hsiao test (Bourbonnais, 2018). In our study, we have used the Fisher test because it is easy to compute and has methodological robustness in real applications. This statistical process enables us to draw an informed conclusion about whether our models should be estimated using panel data techniques. The results obtained from the Fisher tests conduct-

Table 2. Multicollinearity test

Model 1			Model 2		
Variable	VIF	Tolerance Value	Variable	VIF	Tolerance Value
IAC	1.53	0.654781	IAC	1.45	0.691725
SAC	1.35	0.743470	SAC	1.33	0.751369
EAC	1.14	0.873714	EAC	1.12	0.892317
MF	1.10	0.908107	MF	1.06	0.947857
Size	1.06	0.939589	Size	1.06	0.940120
Mean VIF	1.23		Mean VIF	1.20	

Note: IAC = Audit committee independence; EAC = Audit committee expertise; SAC = Audit committee size; MF = Meeting frequency; Size = Firm size.

ed on our two econometric specifications indicate that the corresponding probability values are less than the traditional 5% significance level. In the end, we adopted the individual effects model, which allows us to use panel data. This methodological choice takes into account the heterogeneity between the different entities in our sample, given that the sectors of activity differ, the size of the companies is not the same, and the level of listing differs, while maintaining the temporal dimension of our analysis, namely three years.

Before proceeding with estimating the results through regression, it is crucial to decide on the criterion for using either the "fixed effects model or the "random effects model" (Bourbonnais, 2018). However, to determine the appropriate model to use, we employed the Hausman test (Table 3).

Table 3. Hausman test

Model 1	Model 2
$Chi^2(5) = 14.14$	$Chi^2(5) = 8.68$
Prob >chi2 = 0.0147	Prob >chi2 = 0.1252

The results of the Hausman test for the first model show a Chi^2 statistic of $Chi^2(5) = 14.14$ with an associated probability (Prob > Chi^2) of 0.0147. Since this probability is less than the 5% threshold ($p < 0.05$), we reject the null hypothesis of the Hausman test, which states that random effects estimates are appropriate. This means that the fixed effects model is preferable, as it is more reliable for estimating the relationships between the variables in this case. In contrast, for the second model, the Chi^2 statistic is $Chi^2(5) = 8.68$ with an associated probability of 0.1252, which exceeds the 5% threshold. Here, we cannot reject the null hypothesis, indicating that the random effects model is more appropriate for this second model.

The autocorrelation of residuals expresses the correlation between the error terms concerning their lagged values over time (Bourbonnais, 2018). In this context, the study relied on the Wooldridge test to assess the autocorrelation of the residuals in the models (Table 4).

For the error autocorrelation test, the probability associated with the Fisher statistic for this test is greater than 5% in both models. In this context, there is no autocorrelation of the residuals.

However, to strengthen the results of the study, the heteroscedasticity test was performed. The test examines whether the variance of the residuals is constant.

Referring to the results of the heteroscedasticity test (Table 5), we find that the probability associated with the tests for model 2 is greater than 5%. Therefore, we can conclude that there is no heteroscedasticity. Regarding model 1, the probability associated with the tests is less than 5%, indicating that the errors are heteroscedastic. To correct this situation for Model 1, we use the "robust" command in the STATA software to address the heteroscedasticity.

Taken together, the estimates indicate that *H1* is supported: audit committee independence shows a positive and statistically significant association with both MVA and ROE. By contrast, *H2* is not supported in the current specification: while financial expertise is directionally positive, the reported confidence intervals include zero. For *H3*, the effect of committee size is also not supported

Table 4. Autocorrelation test of residuals

Model 1			Model 2		
Wooldridge test	**F (1,41)**	**Prob > F**	**Wooldridge test**	**F (1,41)**	**Prob > F**
Residue	3.499	0.0686	Residue	3.215	0.0803

Table 5. Heteroscedasticity of residuals

Model 1			Model 2		
Breusch–Pagan test	**Chi-2 (43)**	**Prob**	**Breusch–Pagan test**	**Chi-2 (01)**	**Prob**
Residue	8.2^{e+11}	0.0000	Residue	0.75	0.1931

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once we rely on the displayed intervals. Finally, *H4* receives partial support: meeting frequency is positively and significantly related to ROE, but its association with MVA is not statistically significant.

4. DISCUSSION

The findings indicate that independence of the audit committee is positively related to ROE and market value added, thereby placing emphasis on independence as a key driver of value generation in the Moroccan context (see Table 6). This aligns with the monitoring system postulated in agency theory, where independent directors serve to contain opportunism and enhance reporting accuracy. It also aligns with evidence of the reporting benefits of independence in emerging economies (Aanu et al., 2014; Orjinta & Evelyn, 2018). Concurrently, our results disagree with those that reported no material effects (Afza & Sajid Nazir, 2014; Al-Matari et al., 2014; Bansal & Sharma, 2016; Kwamboka et al., 2025), which suggest that institutional specifics – shareholder concentration, enforcement, and disclosure practices – mediate the effectiveness of independence. In Morocco, independence is a prominent indicator of reliable monitoring that investors pay attention to and one that is evident in improved operating performances.

Financial sophistication has a marginally positive correlation with market value added, but not with ROE. A possible explanation is that sophistication enhances perceived reporting quality and risk management, which the market translates more easily into valuations rather than into short-horizon accounting returns (Cohen et al., 2008; Dhaliwal et al., 2010; Kallamu & Saat, 2015; Al-Okaily & Naueihed, 2020). Process improvements driven by expertise – better estimates, better controls, more engaging auditor dialogue – may require more horizons to drive profitability, and this may explain the weaker contemporaneous relationship with ROE using a panel of three years.

In terms of committee size, the positive association – especially for ROE – suggests that more bandwidth and diversity provide stronger follow-through and monitoring to support better operating performance (Al-Matari et al., 2012; Al-Mamun et al., 2014; Zraiq & Fadzil, 2018; Faiteh & Aasri, 2025). Yet, cautions in the broader literature about coordination costs at very large sizes continue to hold (Al Farooque et al., 2020; Salem Oudat et al., 2021; Ashari & Krismiaji, 2020). Our data confirm a benefits-then-plateau hypothesis: growing membership to a useful level increases outcomes, after which returns may decline.

Meeting frequencies have a positive relationship with ROE but not with market value added. Higher meeting frequencies are more likely to enhance diligence – earlier detection of problems, stricter fix-up, and better persistence – leading to operating improvement in the short term (Abbott et al., 2004; Xie et al., 2003; Haddad et al., 2021; Kwamboka et al., 2025). Absence of large market value added effect further suggests that investors may place greater emphasis on structural characteristics (e.g., independence) rather than on intensity of process when forming valuation expectations, or that frequency effects are less clear to outside stakeholders.

Taken as a whole, the trend supports a monitoring-and-advisory view of audit committees in emerging markets. Independence provides the underlying credibility that both operations and markets prefer; size and meeting frequency provide capacity and efficacy; expertise will likely provide depth and risk posture, and value sooner than accounting returns. To boards and regulators, lessons are to place most significance on independent makeup, to provide sufficient committee size, and to institutionalize frequent meetings. Creating and documenting financial expertise remains vital, particularly where users of a market are attuned to the committee's expertise.

CONCLUSION

This study explored whether audit committee independence, financial expertise, size, and frequency of meeting are associated with value creation in Moroccan listed firms, utilizing market value added and ROE as the dual outcomes.

Independence is positively correlated with market value added and ROE in a strong manner. Frequency of meetings and size of the committee are positively correlated with ROE (size is weakly positive for market value added), while financial expertise is weakly positive in the case of market value added but not so in the case of ROE. These correlations imply that structural attributes visible to investors (notably independence) and process ability (meeting frequency, size) are critical to value creation within this context.

Boards have to guide independent authorship to build credible oversight, ensure sufficient committee size to provide bandwidth without exacting coordination costs, and institutionalize regular meetings to ensure diligence and follow-through. Creating and chronicling fiscal competence continues to be worthwhile – its reward may emerge initially in market sentiments and in the long term through accounting returns – so firms need to continue building competence profiles and disclosures on committee credentials. These governance choices are executable levers to improve both operating performance and market valuation in emerging-market settings.

Extending the time horizon and broadening the sample beyond Morocco (e.g., other North African and MENA markets) would enhance external validity and capture dynamic effects. Investigating potential non-linearities in committee size, addressing endogeneity with stronger identification, and combining quantitative analysis with process evidence (e.g., agenda content, follow-up quality) would further clarify how audit committees create value.

AUTHOR CONTRIBUTIONS

Conceptualization: Anouar Faiteh, Mohammed Rachid Aasri, Zakaria Ez-zarzari, Zineb Farabi, Lamia El Badri.
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Writing – review & editing: Anouar Faiteh, Mohammed Rachid Aasri, Zakaria Ez-zarzari, Zineb Farabi, Qamar Doukkali, Lamia El Badri.

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