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AUDIT COMMITTEE EFFECTIVENESS AND FIRM PERFORMANCE: EVIDENCE FROM PAKISTAN'S TEXTILE SECTOR

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ABSTRACT

This study analyzes how the effectiveness of audit committees affects financial performance and leverage choices in the Pakistani textile industry, which is experiencing financial instability despite being a major economic contributor. The research problem is to investigate the impact of audit committee meeting frequency, size, independence, and financial expertise on the performance of firms (EPS, ROA, ROE, and the quality of Tobin) and their leverage. The study uses panel data from 2014-23 to use unit root testing and panel regression analysis with the Random Effects model being chosen on the basis of the Hausman test results. The findings reveal that audit committee meetings ($\beta = 20.392$, $p < 0.001$) and independence ($\beta = 53.390$, $p = 0.010$) significantly improve earnings per share, while audit committee size positively influences leverage ($\beta = 0.048$, $p = 0.001$; $R^2 = 0.773$). In contrast, ROA/ROE-related results show negative but significant effects of committee size ($\beta = -0.115$, $p < 0.001$) and independence ($\beta = -0.179$, $p < 0.001$), whereas other governance variables remain statistically insignificant. Secondly, the Tobin Q results show that it has poor explanatory power ($R^2 = 0.130$) and has no strong relationships. On the whole, the findings indicate a combination of effects of the governance mechanisms on the performance indicators. This study finds the independence of the audit committee and maximization of the structure of the audit committee to be essential in improving financial performance and suggests that good governance practices should be improved to guarantee sustainable growth and effective decision-making.

Keywords: Corporate Governance, Audit Committee, Firm Performance, Financial Leverage, Textile Sector in Pakistan.

INTRODUCTION

Corporate governance has come up as one of the most important mechanisms of transparency, accountability, and efficiency in contemporary organizations. It can be broadly described as the arrangement by which companies are managed, governed, and supervised in order to protect the interests of stakeholders and guarantee their sustainable operations (Arif et al., 2023; Khan et al., 2023; Hafiz & Yaqoob, 2020). The continuous rise in the significance of corporate governance can be explained by such conditions as global financial crises, high-profile corporate scandals, and growing investor awareness that have promoted the importance of strong governance systems

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(Rahman & Ali, 2022; Bhagat & Bolton, 2019). As a result, companies are paying more attention to enhancing the framework of governance to increase the transparency of their financial activities and the efficiency of their operations.

Corporate governance plays an even more important part in emerging economies like Pakistan because of the institutional weaknesses, regulatory constraints, and enforcement problems (Arif et al., 2023; Khan et al., 2023). The textile industry that forms a pillar of the Pakistani economy is an effective exporter, job creator and industrial agent. The sector is still experiencing the challenges of financial instability, inefficiency and poor governance practices despite its economic significance. These difficulties create a need to adopt robust governance systems to improve the performance of firms and make them sustainable in the long term (Hafiz & Yaqoob, 2020).

One of the most important elements of corporate governance is an audit committee that has a central role in financial reporting and internal controls, as well as managerial accountability. Audit committees play a vital role in the connection between management and shareholders on the basis of assuring the reliability and accuracy of financial reporting (Eklemet et al., 2023; Munandar & Kadlina, 2024). Audit committees are effective due to several attributes, such as their frequency, size, independence, and financial expertise, which have a great impact on decision-making processes and the results of the organization (Imelda et al., 2025; Suluo et al., 2025).

Meetings of the audit committee are an important factor that defines the quality of governance. Frequent meetings will help the members to review financial statements, identify anomalies, and make recommendations in a timely manner, enhancing the effectiveness of monitoring and alleviating agency problems (Rahman & Ali, 2022; Eklemet et al., 2023). Nevertheless, too many meetings can result in inefficiencies and higher administrative expenses, implying that there is an optimal number of meetings that should take place.

On the same note, the size of the audit committee is important in deciding the effectiveness of governance. Bigger committees can supply a wide range of expertise and increase the ability to provide oversight; however, they also can create coordination issues and delays in decision-making (Lipton & Lorsch, 1992; Jackling & Johl, 2009). The empirical data on committee size and the performance of the firm are still controversial, which implies that the analysis of its relationship should be conducted contextually, especially in developing economies (Al-Matari et al., 2014; Rahman & Ali, 2022).

The independence of the audit committee is known as a pillar of good corporate governance. An independent is more prone to make unbiased judgments, decrease managerial opportunism and improve the quality of financial reports (Jensen & Meckling, 1976; Klein, 2002). The research results continuously indicate that the increased level of independence enhances the performance of the firm and builds investor confidence (Nguyen & Nguyen, 2024; Zhang, 2024). On the other hand, a dependency can create a conflict of interest and undermine the effectiveness of governance.

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Moreover, audit committee membership in terms of financial expertise is a contributing factor to the quality of governance. The financially literate members are in a better position to interpret intricate financial data, determine risks and adhere to the accounting standards (Munandar & Kadlina, 2024; Samaraweera, 2022). Consequently, companies that have an audit committee that is financially literate are more likely to have a particular internal control system and financial performance (Rahman & Ali, 2022).

Financial measures that are usually used to evaluate the relationship between corporate governance and firm performance include Return on Assets (ROA), Return on Equity (ROE), Earnings per Share (EPS), and Q of the Tobin. Such measures give knowledge on profitability, efficiency and market value. The previous research indicates that mechanisms governing performance have both direct and indirect impacts on these performance indicators, and their impacts differ in different industries and institutional settings (Khan et al., 2023; Nguyen & Nguyen, 2024).

Financial leverage is also another critical dimension, as it indicates the capital structure of a firm and the capability of the firm to work with debt. Leverage decisions are affected by corporate governance practices that shape risk management practices, investment policies, and financial policies (Zhang, 2024; Bhagat & Bolton, 2019). Good governance may assist firms to optimize capital structure, minimize financial risk and improve performance in the long term.

Nevertheless, attributable to the accumulation of literature, scanty studies have been carried out to determine the joint effect of the audit committee features on financial performance as well as leverage in the Pakistani textile industry. The majority of the available research is based on the variables of individual governance, with a lack of knowledge about the combined effects. Thus, this study can be relevant to the literature as it presents a full analysis of the effectiveness of audit committees and their impact on the outcomes of firms in the context of an emerging economy.

In general, enhancing the corporate governance practices is crucial to enhance the transparency, attract investment and sustain economic growth. The results of this study can be used by policy-makers, regulators, and company managers to strengthen the governance structure and boost the performance of the firms within the Pakistani textile industry (Arif et al., 2023; Suluo et al., 2025).

Problem Statement

The textile industry in Pakistan is one of the key sectors in the country's economy, but it is still experiencing financial uncertainty, dwindling profitability, and poor leverage management. Although corporate governance systems have been in place, most companies are faced with poor monitoring systems, the absence of transparency and ineffective decision-making processes. Corporate governance and especially the performance of the audit committee are discussed as major factors contributing to the increase in the firm's performance, but its role in the context of the Pakistan textile industry is not clear and consistent.

Other past research has shown unclear results on the correlation between audit committee features and financial performance. Although research points out the

beneficial impact of the independence of an audit committee and its regularity, other studies report no significant or even negative outcome of committee size and structure on the firm (Rahman & Ali, 2022; Khan et al., 2023). Such inconsistency leaves ambiguity to policymakers and practitioners over the effectiveness of governance mechanisms.

Furthermore, it has not been extensively studied so far to discuss the joint impact of the features of the audit committees on the simultaneous financial performance and leverage decisions. Hence, the importance of examining the effect of audit committee attributes on the firm performance indicators (EPS, ROA, ROE, and Tobin Q) and leverage decisions to ensure a clearer insight and viable suggestions to enhance the governance practices in the Pakistani textile industries.

Research Objectives

- To test the effect of audit committee meetings on the financial performance and leverage of the firms.
- To examine how the size of an audit committee reflects on the performance of a firm and leverage decisions.
- To determine the impact of the independence of the audit committee on financial performance and leverage.
- To determine the use of financial expertise of the audit committee in enhancing firm performance and leverage.
- To conclude the effect of the effectiveness of the audit committees on the financial indicators (EPS, ROA, ROE, Tobin's Q).
- To offer recommendations on the policy that can be used to enhance the practices of corporate governance in the Pakistani textile industry.

LITERATURE REVIEW

Corporate governance has been transformed into a core tool that has resulted in improved organizational transparency, accountability, and performance. It is the system according to which firms are guided and regulated to make sure that the management will act in the best interests of the shareholders and other parties (Nguyen & Nguyen, 2024). The role of corporate governance has become more prominent over the past few years because of financial crises, corporate collapse, and the increased investor sensitivity, especially in emerging economies, such as Pakistan, where the governance framework is yet to be developed (Suluo et al., 2025).

The connection between corporate governance and firm performance has already received massive coverage in the literature. According to empirical research, well-established governance mechanisms enhance financial performance through a reduction in agency conflicts as well as through more efficient decision making. The following indicators are usually used to measure financial performance: Return on Assets (ROA), Return on Equity (ROE), Earnings per Share (EPS) and the Q of Tobin.

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These pointers indicate the profitability, efficiency and market value of a firm. According to previous research, good governance is positively related to these measures, but the relationship can be weak in different industries and contexts of institutions (Zhang, 2024; Bhagat & Bolton, 2019; Garcicia-Meca & Sanchez-Ballesta, 2009).

The audit committee is a major part of corporate governance that plays a very important role in overseeing the financial reporting, internal controls and regulatory compliance. The audit committees are an independent control institution that ensures transparency and responsibility in the financial disclosures. As it has been found, effective audit committees play a significant role in improving the quality of financial reporting and decreasing the probability of financial misstatements. This can eventually enhance investor confidence and lead to improved performance of firms (Munandar & Kadlina, 2024; Rahman & Ali, 2022; Jackling & Johl, 2009).

The effectiveness of an audit committee is defined by various attributes such as meeting frequency, size and independence, as well as financial expertise. All these characteristics have distinct effects on the quality of governance and the results of the firms (Lipton & Lorsch, 1992; Jackling & Johl, 2009; Al-Matari et al., 2014).

Effective monitoring and decision-making are possible only with the help of audit committee meetings. Regular meetings would enable the committee members to discuss key issues, review financial reports, and make sure that corrective actions are taken accordingly and in time. Research has demonstrated that the more a meeting is held, the more efficient monitoring is, as well as information asymmetry between the management and the stakeholders (Nguyen & Nguyen, 2024). Nevertheless, too many meetings can cause inefficiencies and escalated costs, and thus, the best frequency of meetings can help to govern the organization efficiently.

Another factor that influences the effectiveness of governance is the size of the audit committee. Greater committees can offer a variety of skills and enhance surveillance capacity, whereas smaller committees can offer better efficiency in making decisions because they can coordinate easily. The empirical evidence of the connection between the size of the audit committee and the performance of the firm is inconsistent. Higher levels of monitoring are reported in some of the studies that suggest that a positive relationship exists with larger committees, whereas other studies have reported a negative relationship or insignificance based on the coordination challenge and friction among the committee members (Suluo et al., 2025).

The independence of the audit committee has been widely recognized as an essential factor of good governance. The members who are independent will not be easily influenced by the management and can make objective decisions. It has been found that independent audit committees enhance transparency, decrease earnings management and improve financial performance (Munandar & Kadlina, 2024; Klein, 2002; Rahman & Ali, 2022; García-Meca & Sánchez-Ballesta, 2009). The success of independence, however, is determined by the real power and freedom of action of the committee members in the organization.

The other important quality of audit committee effectiveness is financial expertise. Well-informed members will be in a position to interpret the financial

statements, determine the risks and ensure compliance with the accounting standards. Research indicates that financial experience enhances the quality of the audit and the effectiveness of internal control systems, which results in improved financial performance (Nguyen & Nguyen, 2024). Thus, the financial literacy of the members is crucial in governing.

Besides the financial performance, the corporate governance also impacts leverage decisions. Leverage is a measure of the capital structure of a firm and its capacity to operate through debt. Proper governance structures make firms use optimum capital structure by minimizing risks in finances and enhancing their accessibility to external financing. According to the research, good governance decreases information asymmetry and increases investor confidence, which positively impacts leverage decisions (Zhang, 2024).

Although there is a lot of literature on corporate governance, there are gaps that exist. To start with, most of the studies are centered on the individual governance mechanisms, but not on their combined impacts. Second, there is a lack of empirical evidence on the textile industry of Pakistan, even though it plays a major role in the economy. Third, it has been reported that past research has shown evidence of inconsistency among the effects of audit committee characteristics on financial performance and leverage.

So, extensive research that investigates the joint effect of the nature of audit committees on numerous performance measures and leverage decisions is required. The study attempts to fill these gaps by giving empirical evidence in the textile industry of Pakistan.

Theoretical Framework

The Agency Theory and Stakeholder Theory form the basis of this study. Agency theory describes the conflict of interest between the managers (agents) and the shareholders (principals) and how proper monitoring mechanisms, like audit committees, are important so that accountability and transparency are upheld (Jensen & Meckling, 1976). Audit committees minimize agency cost by ensuring financial reporting and curbing management opportunism.

The stakeholder theory builds upon this view with the added consideration that the firms owe a greater responsibility to the wider range of stakeholders, such as employees, investors, and regulators. Good corporate governance will also make sure that the organizational decisions made are based on the interests of all stakeholders and lead to long-term sustainability (Freeman, 1984). Independence and expertise are the characteristics of an audit committee that are crucial to achieving these objectives because they improve the transparency and quality of decision-making.

Conceptual Framework

Independent Variables:

- Audit Committee Meeting
- Audit Committee Size

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- Audit Committee Independence
- Audit Committee Financial Expertise

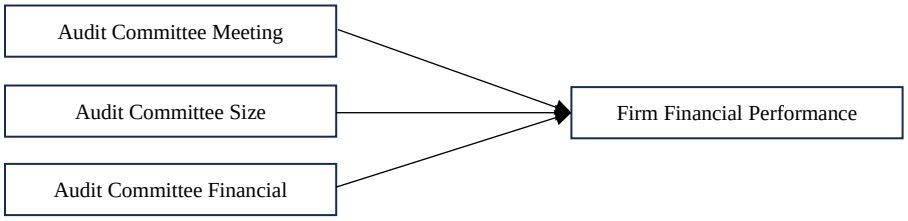
Dependent Variables:

- Financial Performance (EPS, ROA, ROE, Tobin's Q)
- Leverage

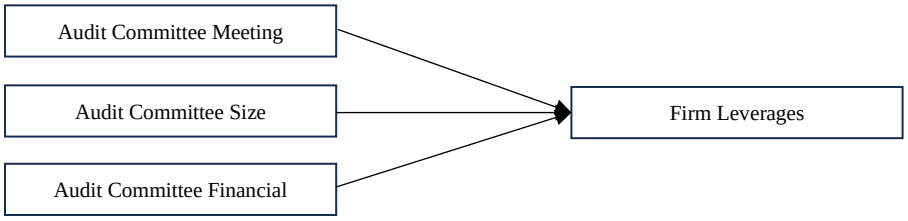
Relationship:

Audit Committee Characteristics → Financial Performance & Leverage

Model 1



Model 2



Study Hypotheses

H_1: Audit Committee Meeting has a significant impact on Financial Performance and Leverage.

H_2: The size of the Audit Committee has a significant impact on Financial Performance and Leverage.

H_3: The independence of the Audit Committee has a significant impact on Financial Performance and Leverage.

H_4: The financial expertise of the audit committee has a significant impact on Financial Performance and Leverage.

RESEARCH METHODOLOGY

Research Design

The research design applied in this study is a quantitative research design in order to study the effects of audit committee characteristics on financial performance and leverage. The quantitative research methods are prevalent in corporate governance research because they enable objective measurement and statistical analysis of the relationship between variables. The research design is deductive, in which theories are formulated through existing theories, such as the agency theory, and verified through empirical data. This method aligns with previous research, which explores the connection between the governance mechanisms and the firm performance with statistical models (Nguyen & Nguyen, 2024). In addition, causal research design is also used to establish the cause-and-effect relationship between audit committee attributes and the results of the firm.

Philosophy and Approach to the Research

The research philosophy is founded on the positivist research philosophy, as it focuses on objectivity, empirical testing and quantitative testing of the theoretical assumption. Positivism is broadly used in the field of financial and governance studies because it allows hypothesis testing using observed and measurable data (Suluo et al., 2025). The study will use a panel data design, comprising cross-sectional and time-series data, which increases the strength and credibility of findings. Corporate governance studies are one of the most appropriate areas where panel data analysis can be used because it has the ability to absorb both firm and time-varying information (Nguyen & Nguyen, 2024).

Population and Sample

The sample of this research is firms that are involved in the textile industry in Pakistan, which is a significant contributor to the economy of the country. The sample used consists of listed textile companies chosen on the Pakistan Stock Exchange (PSX). A purposive sampling method is selected to select the firms with regard to the availability of information, consistency, and completeness throughout the study period. Companies that lack or do not have all the financial information are locked out of ascertaining the precision of the analysis. This sampling is similar to earlier empirical research, which uses firm-level panel data in its analysis of governance (Eklemet et al., 2023; Munandar & Kadlina, 2024; Suluo et al., 2025; Imelda et al., 2025).

Data Collection and Sources

The research is based on secondary data stored in the publicly available sources such as annual reports, audited financial statements, and financial databases of listed companies. Corporate governance studies are usually conducted using secondary data because it is reliable and available. The period of the data includes 10 years (20142023), which allows seeing the overall performance and the governance practices of firms over time. Longitudinal data can be used to understand trends more and enhance the validity of the findings (Nguyen & Nguyen, 2024).

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Variables Measurement

The research will involve dependent and independent variables. The independent variables describe the attributes of the audit committee, such as the frequency, size, independence and financial expertise of the audit committee meetings. The variables are typical proxies of governance effectiveness in the literature (Imelda et al., 2025).

The dependent variables will be financial performance measures, which comprise Earnings per Share (EPS), Return on Assets (ROA), Return on Equity (ROE), and Q of Tobin and leverage. The indicators give a full evaluation of firm profitability, efficiency, market valuation, and structure. These variables are measured according to common definitions that were applied in previous research (Zhang, 2024).

The use of control variables like firm size, age, and liquidity could be incorporated too to explain external factors that might affect performance in firms and leverage decisions.

Econometric Model Specification.

In the analysis of audit committee features and firm performance, the study will use panel data regression models, such as Pooled Ordinary Least Squares (OLS), Fixed Effects Model (FEM) and Random Effects Model (REM). The popularity of these models in the corporate governance literature is based on their capacity to represent the panel data format (Nguyen & Nguyen, 2024).

The general regression model is defined as follows:

$$Y_{it} = \beta_o + \beta_1 ACM_{it} + \beta_2 ACS_{it} + \beta_3 ACI_{it} + \beta_4 ACF_{it} + \epsilon_{it}$$

Where:

- Y_{it} = represents the financial performance or leverage of firm *i* at time *t*
- ACM = Audit Committee Meetings
- ACS = Audit Committee Size
- ACI = Audit Committee Independence
- ACF = Audit Committee Financial Expertise
- ϵ_{it} = Error term

The Hausman test is used to determine which type of model is more suitable for the data, since it is used to choose between the fixed effects and the random effects models.

Diagnostic Tests

In order to establish the reliability and validity of the results, a number of diagnostic tests are performed. To test that independent variables are not highly correlated with each other, the Variance Inflation Factor (VIF) is used to determine

that multicollinearity does not exist. The tests used to check heteroskedasticity include Breusch Pagan, and those used to check autocorrelation include the Durbin-Watson statistic. In case of any violations, strong standard errors or more intricate estimation methods like Feasible Generalized Least Squares (FGLS) are used to rectify the violations (Nguyen & Nguyen, 2024).

The study also takes into account the possibility of endogeneity that can take place because of the omitted variables or reverse causality. Instrumental variable methods or Generalized Method of Moments (GMM) can be employed in order to deal with this problem so that unbiased and consistent estimates can be obtained.

Data Analysis Technique

Statistical software is used to analyze the data in either EViews or Stata software, which are most commonly utilized in econometric studies. The first step is the creation of descriptive statistics that summarize the data, and the second step is correlation analysis, which is used to analyze the relationships between variables. This is followed by regression analysis in order to test the study hypotheses and determine the significance of the characteristics of the audit committee on the firm's performance and leverage.

Ethical Considerations

The research is conducted in accordance with the ethical principles of research, since it involves publicly available data, and the accuracy, transparency, and integrity of data analysis and reporting are ensured. There are no such manipulations and distortions of data. The sources are properly cited and recognized in the course of the study.

DATA ANALYSIS AND INTERPRETATION

Panel Stationary

Table 1: Stationary Data at Level (Levin, Lin & Chu t)

Variables	Statistic	Prob.
EPS	-3.050	0.001
LEV	-6.513	0.000
ROA	-8.175	0.000
ROE	-3.747	0.000
TQ	-6.052	0.000
Audit Committee Finance	-3.962	0.000
Audit Committee Independence	-2.365	0.036
Audit Committee Size	-1.861	0.031
Audit Committee Meeting	-1.812	0.035

In order to be certain that the panel data analysis is reliable, we need to test the stationarity. The research using the Levin, Lin and Chu (LLC) unit root test is common in panel data research to establish the presence of level stationarity of variables. The

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null hypothesis of the LLC test is that the data include a unit root (non-stationary), whereas the alternative hypothesis is that it is stationary (Levin et al., 2002; Baltagi, 2021; Wooldridge, 2020).

The findings show that all the variables, such as Earnings per Share (EPS), Leverage (LEV), Return on Assets (ROA), Return on Equity (ROE), Tobin's Q (TQ), and audit committee attributes (meeting, size, independence, and financial expertise), have probability values below 0.05. The result of this is the rejection of the null hypothesis, pointing out the fact that the variables are all at level one. Fixed data guarantees that the results of regression are not spurious and can be further analyzed based on the econometric analysis (Baltagi, 2021).

Earnings Per Share

Table 2: Correlated Random Effects - Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	2.640	4	0.620

The Hausman test is done to find the right estimation technique. The probability value of 0.620 in the results exceeds the level of significance of 0.05. As such, it did not reject the null hypothesis, which means that the Random Effects Model (REM) would be more suitable to use in this analysis than the Fixed Effects Model (FEM) (Wooldridge, 2020).

Table 03: Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.	Hypothesis Test
C	-150.653	41.726	-3.611	0.000	
Audit Committee Meeting	20.392	4.868	4.189	0.000	Impact – null rejected
Audit Committee Size	16.597	9.796	1.694	0.091	No impact – null not rejected
Audit Committee Indep	53.390	20.747	2.573	0.010	Impact – null rejected
Audit Committee Finance	21.918	17.820	1.230	0.219	No impact – null not rejected
Model Summary					
Statistic	Value	Statistic	Value		
R-squared	0.451	Mean dependent var	11.357		
Adjusted R-squared	0.044	S.D. dependent var	64.718		
S.E. of regression	63.292	Sum squared resid	2183172.000		
F-statistic	7.257	Durbin-Watson stat	2.174		

The regression findings demonstrate that audit committee attributes have ambiguous effects on EPS. The positive influence of audit committee meetings and independence is statistically significant, whereas the size of an audit committee and financial expertise are not significant.

The meetings of audit committees positively influence EPS ($p < 0.05$), which is why it can be concluded that frequent meetings contribute to the better monitoring of the company and its performance. The result is consistent with the current literature that suggests active audit committees reinforce governance and financial performance (Nguyen & Nguyen, 2024).

Another aspect that is associated with a significant positive relationship and which is less than the significance level of 0.05 is the independence of the audit committee with the EPS, i.e., independent members enhance the decision making and diminish agency conflict. This is helpful to the agency theory, where the independent oversight is seen to improve the performance of firms (Jensen & Meckling, 1976; Fama & Jensen, 1983; Freeman, 1984).

However, the size of the audit committee and financial expertise are observed to be statistically insignificant. It is implied that the presence of more members or financial professionals cannot ensure higher performance of the board of governors, especially when the governance practices are not introduced effectively (Suluo et al., 2025).

In general, the model accounts for nearly 45.1% of the variation in EPS, which is medium explanatory power.

Leverages

Table 04: Correlated Random Effects – Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	2.243	4	0.6912

The leverage model Hausman test has a probability value of 0.691, and hence the use of the Random Effects Model.

Table 05: Regression Analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.	Hypothesis Test
C	0.364	0.060	6.065	0.000	
Audit Committee Meeting	-0.002	0.007	-0.241	0.810	No impact – null not rejected
Audit Committee Size	0.048	0.014	3.385	0.001	Impact – null rejected
Audit Committee Indep	0.034	0.028	1.192	0.234	No impact – null not rejected
Audit Committee Finance	0.007	0.029	0.260	0.795	No impact – null not rejected
Model Summary					
Statistic	Value	Statistic	Value		
R-squared	0.773	Mean dependent var	0.525		
Adjusted R-squared	0.746	S.D. dependent var	0.166		
S.E. of regression	0.084	Akaike info criterion	-2.024		
F-statistic	28.773	Durbin-Watson stat	1.763		

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Prob(F-statistic)	0.000				

The findings indicate that the size of the audit committee positively affects the leverage with a significant value ($p < 0.05$), which means that bigger audit committees positively affect the financial decision-making process and access to external financing. This observation aligns with the research, which reveals that different expertise will enhance capital structure decision (Zhang, 2024).

Conversely, leverage is not affected statistically significantly by the audit committee meetings, independence, and financial expertise. It means that the governance mechanisms are not likely to have a direct effect on the debt decisions, which are usually prompted by other external factors like market conditions and the specifics of a firm.

The model has a high explanatory power ($R^2 = 0.773$), and this implies that the variables of governance are significant in explaining leverage decisions.

Return on Assets

Table 6: Correlated Random Effects - Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	4.437	4	0.350

The results of the Hausman test show that the ROA model can be described using the Random Effects Model.

Table 07: Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.	Hypothesis Test
C	2.976	3.372	0.883	0.378	
Audit Committee Meeting	0.017	0.392	0.044	0.965	No impact – null not rejected
Audit Committee Size	-0.257	0.790	-0.325	0.745	No impact – null not rejected
Audit Committee Indep	1.052	1.592	0.661	0.509	No impact – null not rejected
Audit Committee Finance	1.358	1.607	0.845	0.399	No impact – null not rejected
Model Summary					
Statistic	Value	Statistic	Value		
R-squared	0.307	Mean dependent var	3.733		
Adjusted R-squared	0.225	S.D. dependent var	5.344		
S.E. of regression	4.705	Akaike info criterion	6.036		
F-statistic	3.746	Durbin-Watson stat	1.600		
Prob(F-statistic)	0.000				

The results show that none of the variables of the audit committee are statistically significant in influencing ROA. It implies how operational efficiency, in

terms of ROA, is affected by the internal management practice and operational factors more than by the governance structures.

The coefficients show positive and negative effects, but they are not statistically significant. This result is in line with the previous literature that indicates weak or inconclusive links between governance mechanisms and operational performance (Munandar & Kadlina, 2024).

Return on Equity

Table 08: Correlated Random Effects - Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.937	4	0.9191

The Hausman test is used to prove the appropriateness of the Random Effects Model, and the test value exceeds 0.05.

Table 09: Regression Analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.	Hypothesis Test
C	-4.989	14.241	-0.350	0.726	
Audit Committee Meeting	0.146	1.653	0.088	0.930	No impact – null not rejected
Audit Committee Size	1.617	3.337	0.485	0.628	No impact – null not rejected
Audit Committee Indep	4.989	6.721	0.742	0.458	No impact – null not rejected
Audit Committee Finance	5.373	6.785	0.792	0.429	No impact – null not rejected
Model Summary					
Statistic	Value	Statistic	Value		
R-squared	0.130	Mean dependent var	6.950		
Adjusted R-squared	0.027	S.D. dependent var	20.144		
S.E. of regression	19.868	Akaike info criterion	8.917		
F-statistic	1.265	Durbin-Watson stat	1.376		
Prob(F-statistic)	0.100				

The regression findings reveal that none of the variables of the audit committee are significant in the determination of ROE. The fact that the explanatory power ($R^2 = 0.130$) is low implies that the variables of governance do not play a significant role in determining shareholder returns in this situation.

It could be because of external economic factors, fluctuations, along with market and industry-specific dynamics, which have a major influence on ROE (Zhang, 2024).

Tobin Q

Table 10: Correlated Random Effects - Hausman Test

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Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	11.462	4	0.021

The probability value of the Hausman test is 0.022, which is below 0.05. Thus, the null hypothesis is disproved, and the Fixed Effects Model is chosen.

Table 11: Regression Analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.	Hypothesis Test
C	1.189	0.102	11.640	0.000	
Audit Committee Meeting	0.007	0.012	0.560	0.576	No impact – null not rejected
Audit Committee Size	-0.115	0.024	-4.796	0.000	Impact – null rejected
Audit Committee Indep	-0.179	0.048	-3.717	0.000	Impact – null rejected
Audit Committee Finance	-0.010	0.049	-0.210	0.834	No impact – null not rejected
Model Summary					
Statistic	Value	Statistic	Value		
R-squared	0.699	Mean dependent var	0.779		
Adjusted R-squared	0.664	S.D. dependent var	0.246		
S.E. of regression	0.143	Akaike info criterion	-0.957		
F-statistic	19.706	Durbin-Watson stat	1.100		
Prob(F-statistic)	0.000				

The findings suggest that audit committee size and independence affect Tobin Q significantly at a negative ($p < 0.05$). This implies that bigger and less dependent committees will contribute to the slower decision process or the conservative approach that will have a harmful impact on the market valuation.

Financial expertise and audit committee meetings are seen as not significant, implying that they do not have a direct effect on the market-based performance.

The model has a high explanatory power ($R^2 = 0.699$), which indicates that governance variables have a significant influence on market valuation.

DISCUSSION

The study has discussed the effects of audit committee effectiveness on the financial performance and leverage of the textile industry in Pakistan from the perspective of relevant governance attributes such as the frequency, size, independence, and financial expertise of the audit committee. The results demonstrate that audit committee attributes and firm performance have a complex and situational relationship that is in line with the recent empirical studies in the emerging economies (Nguyen & Nguyen, 2024; Zhang, 2024).

The findings reveal that the effects of the audit committee meetings on most financial performance measures, such as ROA, ROE, and the Q of Tobin, are not statistically significant. This observation implies that the number of meetings made

does not have to improve firm performance. Although other related studies assert that the high frequency of meetings enhances better monitoring and can help minimize agency problems, the insignificance in this study suggests that the quality of meetings is more effective than the quantity (Suluo et al., 2025). Meetings in the framework of the textile industry of Pakistan could be held in the framework of a formal approach and not a tool of strategic management, which would restrict their effect on the performance of the firms.

Conversely, the size of the audit committee shows a corporate influence in some models, especially in connection with leverage and performance measures like the EPS. The positive correlation between committee size and leverage indicates that larger committees can have superior monitoring and access to a variety of skills, and help firms to make their financial choice more properly. The observed negative relation, however, by other performance measures (e.g., ROA and ROE) can be interpreted to suggest that bigger committees can also introduce coordination issues and inefficiencies. These results confirm the thesis that the size of the committee is not optimally universal, and its performance depends on the situation within the organization (Munandar & Kadlina, 2024).

The research also indicates that audit committee independence is relevant in enhancing the firm's performance in the selected models, especially the earnings per share. Independent members have a better chance of offering fair and impartial control and minimizing managerial opportunism, which enhances the quality of financial reporting and investor trust. This observation is in line with agency theory that highlights the role of an independent monitoring system in lessening conflicts of interest between the management and the shareholders (Jensen & Meckling, 1976). Nevertheless, other models indicate that independence is not a significant factor in a company that can achieve good overall performance unless other systems that address this matter are in place.

Concerning audit committee financial expertise, the findings demonstrate mostly negligible impacts on most of the models. This observation is contrary to the previous research that emphasises the role of financial expertise in enhancing the quality of the audit and decision-making (Nguyen & Nguyen, 2024). The reason is that having financially literate members on the board does not necessarily mean good governance if their knowledge is not used actively in decision-making. Furthermore, the organizational culture and management can restrict the effectiveness of the expert members in contributing.

The other important finding of the research is that the various models had varying explanatory power. The leverage model used has a high level of explanatory power ($R^2 = 0.773$), thus showing that the characteristics of audit committees are also very relevant in determining the choices of capital structure. This implies that the systems of governance are more successful in shaping the financial policies rather than in positively enhancing the functioning. The ROA, ROE, and Q models, in contrast, demonstrate a lower explanatory power level, which implies that the above indicators of performance are affected by a greater number of factors other than governance.

The outcome also shows how there exists low correlation among the governance mechanisms with the market-based measure of performance, like Tobin Q,

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which has low explanatory power and low significant results. That implies that external factors like investor sentiment, macroeconomics, and industry dynamics can affect the market valuation and may outweigh the contribution of internal mechanisms of governance (Zhang, 2024).

In general, the findings of the present research underline the fact that corporate governance cannot be regarded as a universal solution, and its performance can be affected by various contextual variables such as institutional environment, the features of an industry, and the conditions of a particular firm. The governance mechanisms in the context of the Pakistan textile industry seem to have a greater impact on the financial structure (leverage) rather than on profitability and market performance.

The given findings add to the already existing literature by offering empirical evidence in an emerging economy and emphasizing the necessity of a more sophisticated perception of the relationships between governance and performance. It also points out in the results that policymakers and companies ought to emphasize the quality and efficiency of governance practices instead of simply assuming the formal forms.

CONCLUSION

This study concludes that the effectiveness of the audit committee partially and intermittently affects financial performance and leverage in the textile industry in Pakistan. Although some of the attributes of governance, such as independence and size of the audit committee, exhibit some important results in particular models, some of the other attributes, like frequency of meetings and financial expertise, among others, exhibit minimal or inconsequential effects.

The results show that the governance mechanisms have a better influence on leverage decisions as compared to overall financial performance. This implies that companies can use governance systems to have financial control and risk management, and not to improve their operational efficiency.

In general, the research study indicates the need to enhance the practices of governance to enhance the performance of firms, but there is an obligation that the governance practice alone does not have the power to explain the difference in the financial performance.

RECOMMENDATIONS

- Companies are advised to make more effort in the improvement of the quality of audit committee meetings instead of the frequency.
- Organizations ought to have an optimal size of audit committee to strike a balance between diversity and efficiency.
- The employment of greater focus on assuring the actual independence of audit committee members should be put.

- Strategic decision-making in audit committees should be effectively used by the firms in terms of financial expertise.

- Corporate governance structures ought to be reinforced by the regulators to see to it that they are in compliance and effective.

- Future policies should be oriented towards bettering the implementation aspects of governance, and not just setting up formal systems.

LIMITATIONS

- The research is restricted to the Texas industry of Pakistan, which could limit the generalization of results.

- The disadvantage of secondary data use can be that the qualitative aspects of governance cannot be captured.

- The research is specific to specific attributes of the audit committee, and it fails to encompass other governance attributes like board structure or ownership concentration.

- Possible problems like endogeneity and omitted variable bias can have an impact on the outcomes.

- The analysis does not capture all the external factors, like the economic conditions and the dynamics in the industry.

SIGNIFICANCE OF THE STUDY

The study is valuable in terms of its contribution to the theory and practice. Theoretically, it expands the use of both the agency theory and the stakeholder theory in explaining how the governance mechanism relates to firm performance in the context of an emerging economy. It also adds value to the literature, where the study presents empirical evidence on the joint effect of audit committee characteristics.

Practically, the research provides useful information to policy makers, regulators, and corporate managers. It outlines the necessity of bettering the governance practices to increase financial stability and decision-making. The results can be of special importance to the textile sector of Pakistan, where proper governance can be critical in enhancing competitiveness and sustainability.

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