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THE RELATIONSHIP BETWEEN AUDIT COMMITTEE EFFECTIVENESS AND FINANCIAL REPORTING QUALITY AMONG FAMILY AND NON-FAMILY-OWNED COMPANIES IN THE SULTANATE OF OMAN

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ABSTRACT

This study aims to examine the relationship between audit committee effectiveness and financial reporting quality among family and non-family-owned companies in the Sultanate of Oman. This study uses a panel dataset for 62 companies listed on the Muscat Securities Market for 4 years from 2021 to 2024. The study contributes to its literature by extending previous financial reporting quality with consideration of the Sultanate of Oman business environment where family ownership control is more common. Additionally, this study is based on the difference between family and non-family-owned firms with Type I and Type II agency problems, with differences in ownership and control, this study further contributes to the literature by examining the influences of the audit committee effectiveness on its financial reporting quality, which is expected to be different between family and non-family firms. The empirical results indicate that the association between audit committee effectiveness and its financial reporting quality is positive and significant for both, the full sample as well as the non-family firms. However, this relationship appears to be weaker for family firms.

Keywords: audit committee effectiveness, financial reporting quality, family and non-family firms, Oman.

1.0 INTRODUCTION

Family businesses are often an overlooked form of business ownership in both developed and developing countries, yet they constitute the majority of the businesses. The differences between these countries in managing family firms have been discussed by several studies; for example, La Porta, Silanes & Shleifer (1999) by using 27 countries from around the world found that family firms are the most common type of economic organization in these countries. In a study by Barontini & Caprio (2006) using 675 firms listed in 11 European countries found that the firms controlled by families account for 53 per cent of the sampled companies. Anderson & Reeb (2003) in a study of 403 companies among the S&P 500 industries in the United States (US) determine that more than one-third of these companies are family firms. Claesens, Djankov & Lang (2000) of 2,980 listed companies in nine countries in East Asia, claimed that companies controlled by families account for 66 per cent of the companies studied. Besides, of 304 listed companies in four Arab countries, Omran, Bolbol & Fatheldin (2008) found that the firms controlled by families account for 68 per cent of the sampled companies.

Volume: 09, Issue: 03 May - June 2026

ISSN 2582-0176

Although many family-owned firms have a considerable presence the publicly traded corporations, family-owned firms are different from non-family firms. According to the agency's theory, family owners expend more effort to monitor managers than other types of a large shareholder. This suggests that, compared to non-family companies, the Type I agency problem (manager-owner) may be less prevalent in family firms due to less information asymmetry existing among manager-owners (Anderson, Mansi & Reeb, 2004). However, the Type II agency problem is perceived to be more severe in family firms because family owners may have both the incentive and the ability to extract private benefits at the expense of minority shareholders, which is harmful to firm value (Cheung, Rau & Stouraitis, 2006).

Also, ownership and control in family firms are not separated. In other words, family-owned firms have both a larger share of equity and executives in their companies. In non-family firms, ownership is dispersed among small shareholders and the monitoring role is concentrated among professional managers. Consequently, these differences have led to different styles of management, levels of motivation among the founders, family values and decision-making processes (Daily & Dollinger, 1992; Chua, Chrisman & Chang, 2003). Therefore, based on the differences between family and non-family-owned firms with Type I and Type II agency problems, and the difference in ownership and control; the influence of corporate governance effectiveness on the earning quality is expected to be different for family and non-family firms.

It has been declared by the Securities and Exchange Commission (SEC) that the audit committee is an important element of corporate governance and is instrumental in ensuring the internal control, and management risk. The committee's responsibility is to safeguard the independence of the internal audit function and ensure continual improvement in the management performance and accountability by seeking action on the internal and external audit reporting. In fact, audit committee definitions have provided either implicitly or explicitly that the audit committee is a sub-committee of the main board of directors of a company and its roles concentrate into assuring the quality of financial reporting and corporate accountability; links between the external auditor and the board; facilitates the monitoring process; enhances the independence of an auditor from management. Recently, most authorities of capital markets have made the formulation of audit committee mandated by listed companies. Many reasons have been provided in the previous researches regarding the formulation of the audit committee. Among these reasons are to protect shareholders' interests; guide management and enhance corporate credibility (Pomeranz, 1977); reduction of board liability; establishing links between the external auditor and the board; the reduction of illegal activity and the prevention of fraudulent financial reporting (Cobb, 1993) and reduce the agency costs (information asymmetry) (Turley and Zaman, 2004).

DeZoort, Hermanson, Archambeault, and Reed (2002) have suggested that an effective audit committee can ensure the reliability of financial reporting, internal control, and management risk. They noted that there are four fundamental determinants of effective audit committee. These include: 1) composition such as independence, expertise, integrity, and objectivity; 2) authority, such as responsibilities; 3) resources such as adequate number of members; 4) diligence such as the number of committee meetings. This study focuses on four characterises of audit committee; audit committee independence, size, frequency meeting, and expertise. Several studies have examined the relationship between different characteristics that reflect the effectiveness of audit committees and varieties of aspects of financial reporting. For instance,

Volume: 09, Issue: 03 May - June 2026

ISSN 2582-0176

studies (Beasley, 1996; Beasley et al., 2000; Abbott et al., 2004) found evidence about the contribution of audit committee independence and expertise and meetings on reduction of financial misstatements. Along the same line, other studies (Klein, 2002; Bedard et al., 2004; Vafeas, 2005; Bradbury et al., 2006; Kent et al., 2010) indicated that effective audit committee reduces earnings management. Abbott et al. (2004) found a negative association between audit committee independence and financial expertise and the likelihood of financial reporting restatements and financial reporting fraud.

Recent studies have used the aggregate measurement for audit committee quality in investigating the impact of audit committee effectiveness and the quality of its financial reporting. Most of these studies provide interesting evidence viewing that aggregate measurement of audit committee quality has many desirable effects, such as high performance, high financial reporting quality and high audit quality. For example, Brown & Caylor (2006), Gompers, Ishii & Metrick (2003) and Larcker, Richardson & Tuna (2007) stated a positive relationship between the quality of audit committee and the firm's performance. Besides, DeFond, Hann & Xuesong (2005) reported that aggregate measure of audit committee positively affects the market reaction, accounting conservatism (Lara, Osma & Penalva, 2007; Krishnan & Visvanathan 2008) and earnings quality (Kent, Routledge & Stewart, 2010; Baber, Liang & Zhu, 2012). Similarly, Zaman, Hudaib & Haniffa (2011), Sharma, Sharma & Ananthanarayanan (2011) and Cassell, Giroux & Omer (2012) finds a positive association between the quality of audit committee, audit quality and disclose that weaker quality of audit committee are more likely to have lower audit quality.

The current study contributes to the literature by extending the scope of previous works of literature regarding financial reporting quality by considering the business environment in the Sultanate of Oman where family ownership and control are more common. Furthermore, the current study contributes by considering the effect of the audit committee as an aggregate measure to capture the combined effect of these mechanisms on the propensity of the financial reporting quality based on a framework conceptualized according to the agency's theory. Finally, based on the difference between family and non-family-owned firms with Type I and Type II agency problems, and the differences in ownership and control, this study further contributes to the literature by examining the influence of the audit committee effectiveness on the financial reporting quality, which is expected to be different between family and non-family firms.

2.0 PREVIOUS LITERATURE

2.1 Audit Committee for Family and Non-Family Firms

The audit committee is an important element of corporate governance and is concerned with establishing and monitoring the accounting processes to provide relevant and credible information to the firm's stakeholders (Pincus, Rusbarsky & Wong, 1989; Beasley, 1996). Anderson et al. (2004) argue that the quality of audit committees is to ensure the soundness and quality of internal accounting and control practices. However, the effectiveness of the audit committee can be jeopardized by the presence of too many family members (Bettinelli, 2010). The agency's theory predicts that family firms will have less demand for an effective audit committee because controlling families want to take advantage of minority shareholders.

Volume: 09, Issue: 03 May - June 2026

ISSN 2582-0176

Focusing on a sample of 523 Hong Kong firms for the period of 1999-2000, Jaggi & Leung (2007) found that audit committees play a significant role in constraining earnings management even when ownership is concentrated in the hands of fewer people. However, they also found that the effectiveness of audit committees is significantly reduced when family members are present on corporate boards, particularly when family members dominate these boards. In addition, Wong (2011), based on 385 Hong Kong listed firms, confirms that family firms are associated with less audit committee independence and financial expertise.

Some studies have examined the effect of the audit committee characterises on the financial reporting quality; for example, Raghunandan, Read & Rama (2001) showed that the audit committee independence was associated with a stronger internal audit function. Klein (2002) revealed a negative association between audit committee independence and abnormal accruals. Consistent with the later result, Bédard, Chtourou & Courteau (2004) indicated that audit committee independence constrains aggressive earning management. Recent evidence also holds the proposition of effective role provided by independent directors on the audit committee over the quality of financial reporting (Ahmad-Zaluki & Wan-Hussin 2010; Dhaliwal et al. 2010; Krishnan, Yuan & Wanli, 2011; Edwin Sitienei, 2022). There have been studies looking at the role and importance of audit committee size on a variety of outcomes. For example, Lin, Li & Yang (2006) contended and reported that the audit committee size is significantly associated with high-quality earnings. Persons (2009) found that companies with large audit committee have earlier voluntary disclosure and is less likely to commit fraudulent financial reporting. Ghosh, Marra & Moon (2010) found audit committee size positively associated with earning management. Baatwah et al. (2025) reveal that audit committee chairs with accounting expertise have an insignificant direct influence on tax avoidance.

It has been posited that an active audit committee is expected to provide effective monitoring, and thus the reliability of financial reporting is enhanced (DeZoort, Hermanson, Archambeault & Reed, 2002). Several studies have been conducted to examine the impact of audit committee meetings on financial reporting output and audit process. The findings of this literature suggest that more audit committee meetings are associated with fewer financial reporting problems and with higher audit quality (DeZoort et al. 2002). For example, McMullen & Raghunandan (1996) found that companies with financial reporting problems held fewer audit committee meetings. Using earnings management proxies, Xie, Davidson & DaDalt (2003) and Saleh, Iskandar & Rahmat (2007) reported that there was a negative relationship between audit committee meetings and earnings management. However, Lin et al. (2006) and Krishnan & Visvanathan (2008) reported an insignificant association between audit committee meetings, accounting restatements occurrence and accounting conservatism respectively. The audit committee is mainly responsible to oversee the financial reporting process, auditing and internal control processes; therefore, having financial experts constitute an imperative condition to ensure that the audit committee effectively performs its tasks. Xie et al. (2003) and Saleh et al. (2007) reported that companies with financial experts on audit committees were less likely to practice earning management. There is a considerable number of research conducted and reported that only accounting expertise audit committee associated with accounting conservatism (Krishnan & Visvanathan 2008), internal control quality (Zhang et al. 2007; Goh 2009), less occurrence of assets misappropriation (Mustafa & Youssef 2010), and high-quality earnings (Dhaliwal et al. 2010; Krishnan et al. 2011).

Volume: 09, Issue: 03 May - June 2026

ISSN 2582-0176

The relevant literature reviews above have shown contrasting findings of the individual characteristics of the audit committee with the financial reporting quality. This approach has been criticized in recent literature for its inability to represent the quality of the audit committee. Larcker et al. (2007) argue that mixed evidence of corporate governance effect on company performance or financial reporting quality can be attributed to using individual mechanism. Further, Brown et al. (2011) note that using a single corporate governance mechanism is not appropriate to measure overall corporate governance quality and that research should use a composite corporate governance measure to provide a better measurement for corporate governance quality. Subsequently, it is reported that the relevancy of individual machines in the corporate governance system is tailored to other mechanisms (Baber et al. 2012). Past studies by O'Sullivan, Percy & Stewart (2008), Hoitash, Hoitash & Bedard (2009), Goh (2009), Ishak & Al-Ebel (2011), Fallatah & Dickins (2012), Lary & Taylor (2012), Aldamen & Duncan (2012), and Ramly (2013) Esitime Okon et al. (2024) combined a number of characteristics as a proxy for audit committee factors to produce a combined score for audit committee. Applying the same reasoning, this study examines the audit committee and external audit characteristics (independence, size, frequency meetings, expertise, and audit reputation), as a composite measure for audit committee effectiveness, to capture their combined effect on determining whether or not they are associated with the financial reporting quality for companies listed on the Muscat Securities Market.

In addition, the contrasting findings above ignore the influence of the institutional structure of companies and countries, such as the ownership structure. According to Desender (2009), the effectiveness of the audit committee depends on the institutional structure of companies and countries, such as ownership structure. For example, Bhojraj & Sengupta (2003), and Kosnick (1987) show that companies with concentrated family ownership could not obtain the optimum quality reports even with an effective board of directors, because the board of director are appointed to comply with legal requirements only. Several studies have shown a difference in firm performance between family and non-family firms (e.g. Anderson & Reeb, 2003; Villalonga & Amit, 2006; Miller, Breton-Miller & Lester, 2007; Chahine, 2007; Ibrahim & Abdul Samad, 2011; Ong & Gan, 2013). However, the empirical results for the performance between family and non-family-owned firms are mixed. For example, Anderson & Reeb (2003), Villalonga & Amit, (2006) show that family firms perform better than non-family firms, while Miller et al. (2007) indicate that firms that are owned and controlled by families or employ relatives as managers never exhibit superior performance. A study by Chahine (2007) on the Gulf Cooperation Council (GCC) countries finds that private investor ownership business and personal relationships dominate the financial preferences, and, therefore, have a negative effect on bank value. Therefore, it is important to study family-owned firms because, compared to non-owned firms, they are common among public firms in both developed and developing countries.

This study attempts to extend these prior studies by examining whether there is any difference in the association between audit committee effectiveness and financial reporting quality between family and non-family-owned companies in the Sultanate of Oman where family-based ownership control is widespread and the legal protection of minority shareholders is weak (Omran et al., 2008). Within this weak regulatory framework, the controlling family can expropriate minority shareholders by appointing closely related directors in the committees. This practice might reduce the effectiveness of the audit committee that influence the quality

Volume: 09, Issue: 03 May - June 2026

ISSN 2582-0176

of financial reporting. Based on the above arguments and previous studies, this study expects that the influence of audit committee effectiveness on the quality of financial reporting is weaker in family firms than in non-family firms.

3.0 METHODOLOGY

3.1 Data Sources and Sample Selection Criteria

The population of this study consists of financial and non-financial firms that were listed on the Muscat Securities Market from 2021 to 2024. The total number of companies listed on the Muscat Securities Market was 97 at the end of 2024. Due to the differences in the regulatory requirements, and the characteristics of their financial reports, which are different from those of non-financial firms, 35 banks and other financial institutions were excluded from the population (Lorca, Ballesta & Meca, 2011; Byun, 2007; Kim, Simunic, Stein & Yi, 2009). The final sample of this study for a single year is 62 firms. More specifically, this study uses a balanced panel dataset, which has multiple observations of the same economic units. Each element has two subscripts, the group identifier, i (in this case 62 companies), and within the group index denoted by t, which identifies time (in this case 2021-2024). Based on the balance panel dataset approach, each year from 2021-2024 has a sample size of 62 firms. The total number of observations for the entire period is 248 (62 firms for 4 years).

3.2 Empirical Model

This study uses a panel dataset, which has multiple observations on the same economic units. Each element has two subscripts, the group identifier, i (in this case 62 companies) and within the group index denoted by t, which identifies time (in this case 2021-2024). Based on the above sample this study starts by reporting the descriptive statistics for the full sample of 248 firms, the family sample of 140 firms and the non-family sample of 108 firms. Subsequently, a descriptive analysis provides more descriptive information that enables the data to be understood and interpreted more appropriately. Using the means from randomly drawn samples, the independent two-sample t-test is used to test whether the population means are significantly different between the family and non-family firms. Additionally, this study uses the following regression for the financial reporting quality:

$$FRQ_{it} = a0 + \beta 1ACEFF_{it} + \beta 2FS_{it} + \beta 3LEV_{it} + \beta 4ROA_{it} + \varepsilon it$$

where: i represents company, t time period, FRQ is financial reporting quality, ACEFF is audit committee effectiveness, FS is firm size, LEV is leverage, ROA is return on assets, and ε is the error term.

3.2 Panel Data Estimation

The financial reporting quality model in the previous equation is first estimated by using ordinary least squares (OLS), which treats all the observations for all the periods as a single sample. The OLS model ignores the panel nature of data and assumes that εit has no serial correlation. However, panel data may have group effects, time effects, or even both. These effects are either fixed or random. A fixed-effects model assumes differences in intercepts

Volume: 09, Issue: 03 May - June 2026

ISSN 2582-0176

across groups or periods, whereas a random-effects model explores differences in error variances. For a given observation, an intercept varying over units results in the structure:

$$FRQ_{it} = a_0 + \beta_1 ACEFF_{it} + \beta_2 FS_{it} + \beta_3 LEV_{it} + \beta_4 ROA_{it} + (u_i + \varepsilon_{it})$$

where: ui is the individual-level effect, and ε it is the disturbance term. The ui is either correlated or uncorrelated with predictor variables. The ui is always assumed to be uncorrelated with εit. If the ui is uncorrelated with the predictor variables, it is known as the random-effects model, but if the ui is correlated with the predictor variables, it is known as the fixed-effects model. The Hausman test is used to differentiate between the fixed effects model and the random-effects model. This test uses the difference between the two estimated covariance matrices (which is not guaranteed to be positively definite) to weigh the difference between the fixed effects model and the random-effects model vectors of slope coefficients. In contrast, the Breusch-Pagan (LM) test (Breusch & Pagan, 1980) uses the OLS model as the null hypothesis, and the random-effects model as the alternative.

3.3 Measurement of the Variables

The dependent variable of this study is the financial reporting quality; this study uses accruals quality as a proxy for financial reporting quality. The measure employs a Dechow & Dichev's (2002) accrual quality model by Francis, LaFond, Olsson & Schipper (2005), which has recently been considered as a better proxy for financial reporting quality (Aboody, Hughes & Liu, 2005; Biddle, Hilary & Verdi, 2009; Spiceland, Yang & Zhang, 2015; Yoo, Lim, & Chang, 2013). This measure is based on the observation that accruals map into cash flow realizations and regardless of managerial intent, the accrual quality is affected by the measurement error in accruals. In Dechow & Dichev's (2002) approach, the estimated residuals from firm-specific regressions of working capital accruals on past, present, and future cash flow from operation capture total accruals estimation error by management and are viewed as an inverse measure of earnings quality. Francis et al. (2005) extended the Dechow & Dichev (2002) original accrual quality model by adding two additional variables, i.e. change in revenue and property, plant and equipment (PPE) for more complete characterization of the relation between accruals and cash flow. The following equation of accruals quality adopted as a proxy of financial reporting quality:

For each firm-year, the equation is estimated cross-sectionally for all firms (minimum 10 firms within each industry groups In the Sultanate of Oman, there are two industry groups - Industrial and Services.) using rolling 6-year windows. Accrual quality equal to the standard deviation of firm it estimated residuals. Larger standard deviations of residuals correspond to poorer accrual quality. Following DeFond et al. (2007) and Hashim & Devi (2008), the standard deviation score is multiplied by -1 so that a higher score indicates higher earnings quality, therefore higher financial reporting quality.

The definition of a family business is still subject to debate among researchers. For example, Anderson & Reeb (2003) define a family firm as either individuals or groups of founders or any close family relationship among the owners, directors or block holders. On the other hand, Maury (2006) describes family ownership as the degree of family presence on the board in addition to acknowledge the exerting dimensions of family power. Furthermore, Astrachan, Klein & Smyrnios (2002) define a family firm as consisting of three main dimensions – power,

Volume: 09, Issue: 03 May - June 2026

ISSN 2582-0176

experience and culture of a family. However, Adams, Almeida & Ferreira (2009), and McConaughy, Walker, Henderson & Mishra (1998) explain family-owned firms based on family control and voting rights. From the above definitions, this study defines family firms in the Sultanate of Oman as private institutions that take the name of a family as well as individuals that have the same family name or any close form of family relationship among the owners. Accordingly, family ownership in this study is measured as a percentage of shares owned by family shareholders who own 5% The 5% cut-off is used because the majority of the listed companies in the Sultanate of Oman only disclose the ownership of the major shareholders who own 5% or above of the firm's total equity or more of a firm in respect of the total number of shares issued (Chahine, 2007; Al-Musalli & Ismail, 2012). Therefore, to separate between family and non-family firms, this study uses a dummy variable by assigning a value of one (1) for family firms if the major family shareholders own a stake of 5% or more of firm shares, and zero (0) otherwise for non-family firms.

Four characteristics of the audit committee are used to measure effectiveness. 1) Audit committee size, which is measured as the number of directors on the audit committee (Goh, 2009). An audit committee of sufficient size can help the committee discharge its duties without overloading (Dezoort et al., 2002). 2) Independent directors on the committee, which is measured as the proportion of independent directors on the audit committee (Krishnan & Visvanathan, 2008). Fama & Jensen (1983) state that the outside directors of an audit committee have an incentive to develop a reputation as experts in decision control, and, therefore, their existence on the board will enhance the internal control mechanism. 3) Audit committee meetings, which is measured as the number of meetings held by the audit committee per year (Raghunandan & Rama, 2007). Menon & Williams (1994) consider frequent audit committee meetings as a signal for audit committee diligence. 4) Financial expertise for audit committee members, which is measured as the proportion of audit committee members with qualifications or experience in accounting or finances (Krishnan & Visvanathan, 2008). DeZoort et al. (2002) argue that the knowledge of audit committee members in functional areas, such as auditing, accounting and finance, is regarded as a critical characteristic of audit committee effectiveness.

This study includes control variables that have been shown to have a significant impact on financial reporting quality. This study includes firm size as one of the main control variables measured by the natural logarithm of total assets (Ghosh, 2005). Leverage is calculated as the percentage of total debt to total assets for the differences in the financial structure of firms and is used as a proxy for default risk (Fields, Fraser & Subrahmanyam, 2010). This study includes return on assets by dividing the net profit to total assets as an indicator of a firm's financial performance (Haniffa & Huduib, 2006).

Table 1 Operational Measurement of Variables

Variables	Acronym	Measurement
Financial Reporting Quality	**FRQ**	Absolute value of standard deviation of firm residuals, from years t-6 to t from annual cross-sectional estimations of the Francis et al. (2005) model, multiplied by -1

Corporate Governance Effectiveness	**ACEFF**	Score ranging between 0 and 4, with higher score indicates more effective audit committee and zero (0) otherwise.
Family Control	**FC**	Value of one (1) if the major family shareholders own a stake of 5% or above of firm shares and zero (0) otherwise.
Firm Size	**FS**	The natural logarithm of total assets.
Leverage	**LEV**	The percentage of total debt to total assets.
Firm Performance	**ROA**	Net profit divided by total assets.

4.0 RESULTS AND DISCUSSION

4.1 Descriptive Statistics

Table 2 Descriptive Statistics for Full Sample, Family, and Non-Family Firms

Variables	Full Sample (Firms=62) (N=248)				Family (Firms=35) (N=140)	Non-Family (Firms=27) (N=108)
	Mean	Std D	Min	Max	Mean	Mean
FRQ	-0.587	0.631	-2.637	-0.015	-0.566	-0.4840
ACEFF	1.951	0.8225	0.000	4.000	1.856	1.1726
FS	7.152	0.607	5.439	8.851	7.0108	7.3560
LEV	0.540	0.248	0.053	1.082	0.5604	0.5109
ROA	0.045	0.088	-0.288	0.298	0.0285	0.0691

FRQ (Financial reporting quality) = Absolute value of standard deviation of firm residuals, from years t-6 to t from annual cross-sectional estimations of the Francis et al. (2005) model, multiplied by -1.
ACEFf (audit committee effectiveness) = Score ranging between 0 and 4, with higher score indicates more effective audit committee, and zero (0) otherwise.
FS (Firm Size) = Natural logarithm of total assets.
LEV (Leverage) = Percentage of total debt to total assets.
ROA (Return on Assets) = Percentage of the net profit to total assets.

Table 2 presents the descriptive statistics for the full and separate sample of the family and non-family firms in the Sultanate of Oman. The descriptive statistics show a mean value of the financial reporting quality for the full sample of -0.587 with a minimum of -2.637 and a maximum of -0.015, while the mean value of the financial reporting quality for family and non-family are -0.566 and -0.484, respectively. The results show that the financial reporting quality is statistically and significantly different between family and non-family firms. This indicates that the quality of financial reporting in family firms is lower compared to non-family firms. The descriptive statistics also show that the average value of audit committee effectiveness for the full sample is 1.951 with a minimum of zero and a maximum of four, while the mean value for the effectiveness of the audit committee for family firms is 1.856 and 1.1726 for non-family firms. Additionally, the mean value of the firm size for the full sample is 7.152 with a minimum of 5.439 and a maximum of 8.851, while the mean values for family and non-family firms are 7.0108 and 7.3560, respectively. This indicates that the firm size (measured as total assets) in family firms is smaller than in non-family firms. Moreover, the average value of leverage (the proportion of total debt to total assets) for the full sample is 0.540 with a minimum of 0.053

and a maximum of 1.082, while the leverage ratios for family and non-family are 0.5604 and 0.5109, respectively. The results show that the family firms use more debt than non-family firms. However, the descriptive statistics for firm performance (measured as return on assets) for the full sample 0.045 with a minimum of -0.288 and a maximum of 0.298, while the mean values for the family and non-family sample are 0.0285 and 0.0691, respectively.

4.2 Regression Results

Table 4 Random Effects Model for Full Sample, Family, and Non-Family Firms

Variables	Full Sample (Firms = 62)		Family (Firms= 35)		Non-family (Firms= 27)	
	Coeff.	t-Stat.	Coeff.	t-Stat.	Coeff.	t-Stat.
CGEFF	0.0703	1.81***	0.0496	1.78*	0.0549	1.26**
FS	-0.0028	-0.03	0.0535	0.36	-0.0553	-0.38
LEV	0.0746	0.61	0.0304	0.15	0.1968	0.81
ROA	1.0670	2.41**	1.3164	2.27**	0.5509	0.84
Constant	-0.8691	-2.31**	-1.2160	-1.82*	-0.6593	-0.78
Hausman test	9.12					
Breusch-Pagan test	115.34**					
R^2	0.132		0.165		0.130	
N	248		140		108	

***, ** and * indicates significant at 1%, 5%, and 10% respectively.
Refer to Table 2 for description of variables details.

As shown in Table 4, the result of the Hausman test is > 0.05 (i.e. not significant), and for the Breusch-Pagan (LM) test, it is < 0.05 (i.e. significant). These two tests indicate that the random effects model is much preferred. Based on the random effects model, the results reveal that the corporate governance effectiveness for the full sample is significant (at p-value < 0.01) in the predicted positive direction, as shown by the estimated coefficient. This indicates a strong association between audit committee effectiveness and the financial reporting quality. This result supports that companies with a high quality of audit committee can achieve an extent of quality in its financial reporting, due to the reduced agency problems and improved monitoring of managerial actions, and, consequently, are likely to provide credible financial reports (Anderson et al., 2004; Ertugrul & Hegde, 2008; Piot et al., 2007).

To support the results in the full sample regression, this study divides the full sample into two groups – family and non-family – to examine whether there is any difference in the influence of audit committee effectiveness on the financial reporting quality among family and non-family-owned companies in the Sultanate of Oman. The result indicates that there is a significant positive relationship between the effectiveness of the audit committee and the quality of financial reporting for the family firms (at p-value < 0.1). This suggests that the relationship between the audit committee effectiveness and the financial reporting quality becomes weak when the firms have family ownership. For non-family firms, however, the relationship between the effectiveness of the audit committee and the financial reporting quality is consistently positive and significant (at p-value < 0.05).

Volume: 09, Issue: 03 May - June 2026

ISSN 2582-0176

This result supports prior research arguments that family businesses create the mechanisms of corporate governance to comply with legal requirements, whereas non-family firms create provision to the primary mechanism to control agency cost, and deal with problems relating to the management of the organization and improve the quality of financial reporting (Kosnick, 1987). Furthermore, this study supports the argument of Jaggi, Leung & Gul (2009), who contend that the appointment of a board of directors for family firms is to seek expertise and advice concerning the strategic direction of the firm rather than to monitor and control managerial activities. It is plausible that the role of the board and the role of the family have a substitution effect on the financial reporting quality that warrants further investigation.

Among the control variables, the relationship between firm size and financial reporting quality based on the full, family and non-family samples is not significant. Similarly, the effect of leverage on the quality of financial reporting for the full sample and the separate samples of family and non-family is not statistically significant. However, although the effect of performance on the full sample and family firms' sample is positive and significant, there is no significant effect for the non-family samples.

5.0 CONCLUSION

The objective of this study is to determine whether there is any difference in the relationship between audit committee effectiveness and financial reporting quality among the family and non-family-owned companies in the Sultanate of Oman. This study extends the scope of previous studies concerning the quality of financial reporting by considering the business environment in the Sultanate of Oman, where the financial markets remain less developed and the regulations and corporate control are still weak. In addition, firms in the Sultanate of Oman have a more concentrated ownership structure in which family ownership control is more common. Moreover, this study contributes to the literature by providing a comparison between family and non-family firms in respect of its effect on the audit committee as a composite measure to capture the combined effect of the features on the propensity of the quality of financial reporting based on a framework conceptualized in accordance with the agency's theory.

The empirical results of this study, based on the panel data for companies listed on the Muscat Securities Market from 2021 to 2024, reveal that the impact of the effectiveness of the audit committee on the quality of financial reporting is positive and significant for the full and non-family sample, while this relationship becomes weak for family firms. The results of this study are useful to all stakeholders, as it provides them with an important indicator regarding the kind of controlling shareholder and the internal mechanisms of corporate governance that will protect their interests. This study also benefits the regulators and policymakers in the Sultanate of Oman, such as the Muscat Securities Market, because this study highlights several issues that can assist them in analysing the impact of other corporate governance mechanisms on this relationship in the Sultanate of Oman. For instance, regulators and policymakers might use the findings regarding the quality of financial reporting in the relationship to governance practice, to identify the important roles played by internal mechanisms of corporate governance as one of the basic mechanisms of the corporate governance system in the Sultanate of Oman.

Volume: 09, Issue: 03 May - June 2026

ISSN 2582-0176

Nevertheless, this study has some limitations. First, the quality of the results can be judged based on the quality of the sample data. Second, the sample of this study only focuses on non-financial companies listed on the Muscat Securities Market. Other non-listed companies and financial companies have been disregarded. Therefore, the validation of the conclusions might not hold strongly for financial companies and other companies outside these lists. Therefore, this study only focuses on the audit committee characteristics association with the quality of audit committee when they work as a substitute or complementary measurement. Following the limitations highlighted above, future research could examine the issue of the financial reporting quality in different contexts (different economic cycles, different stock exchanges or different cultures). In particular, the validity of this model can also be examined in the different contexts of the GCC countries, in different time periods, and with different sample sizes.

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