The Impact of Audit Committee Characteristics on Corporate Social Responsibility

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Abstract

This study aims to examine the complex interactions between audit committee characteristics and the scope of corporate social responsibility (CSR) disclosures, with an emphasis on organizational sustainability challenges. This research suggests to examine the effects of the audit committee's important characteristics, including its size and the proportion of its members who have financial knowledge, in an effort to shed light on this link. The present research suggests launching an analytical journey using the Ordinary Least Squares methodology, drawing its empirical foundation from secondary data gathered from the annual and sustainability reports of industrial enterprises listed on the Bahrain Stock Exchange for the fiscal year 2020. In order to better understand these intricate linkages, the study suggest rigorously statistically analyzes the data to uncover the complicated relationships between audit committee activities and the volume of CSR reports. The study adds to both the theoretical as well as the practical spheres in the continuously changing environment of business activities. The association between audit committee traits and CSR filings is theoretically more understood thanks to this development. It also fills a significant vacuum in the existing literature by addressing this link in the context of sustainability challenges, adding to the body of research currently available. In a practical manner, the research's results could provide useful information for corporate governance and CSR activities in Bahrain and elsewhere. This study can direct firms toward establishing a more all-encompassing strategy to CSR in the Bahraini environment by arguing for the strategic importance of audit committee attributes—specifically, size and the expertise composition—influence over CSR disclosures. The results of this study might therefore operate as a catalyst for more CSR integration within enterprises, ultimately promoting those companies' sustainable growth and beneficial social effects. By establishing a comprehensive structure that captures the relationship between audit committee features and CSR disclosures relevant to matters of sustainability, the current investigation essentially goes beyond the bounds of standard research. By doing thus, it contributes to the scholarly conversation and provides useful information for practitioners attempting to navigate the complex world of corporate social responsibility in an increasingly ethical business climate.

Keywords: Audit Committee Characteristics, Corporate Social Responsibility (CSR), Disclosures Organizational Sustainability Challenges
1. Introduction

Several works and researchers have focused on this matter and also focused on corporate governance, sustainability, and firm performance (Chechan et al., 2020; Alabdullah, 2017; Alabdullah et al., 2014; Alabdullah et al., 2023; Alabdullah et al., 2023; Alabdullah et al., 2023; Housian et al., 2023; Ahmed et al., 2023; Alabdullah and Housian, 2023; Alabdullah and Zobun, 2023). Some of the previous studies concentrate on some important mechanisms (Almashhadani & Almashhadani, 2022; Alabdullah, 2023; Almashhadani, 2020; Al-fakhri & Alabdullah, 2021; Chechan et al., 2021; Alfadhal & Alabdullah, 2016; Alfadhal & Alabdullah, 2013; Alabdullah, 2023; Ahmadian et al., 2023).

The concept of corporate social responsibility (CSR) has received a lot of focus lately as businesses struggle with how to solve environmental and social problems while yet remaining profitable (Chechan et al., 2020; Alabdullah et al., 2023; Ahmadian et al., 2023). Businesses are adopting more ethical business practices as a result of increased scrutiny of their effects on humanity and the environment (Almashhadani & Almashhadani, 2022; Alabdullah, 2023; Al-fakhri & Alabdullah, 2021; Chechan et al., 2021; Alfadhal & Alabdullah, 2016; Alfadhal & Alabdullah, 2013; Almashhadani, 2020; Alabdullah et al., 2023). Scientists are now investigating the complex connections between different business characteristics and CSR initiatives as a result of this transition. The impact of audit committee traits on the breadth and depth of CSR disclosures, especially in the context of sustainability concerns, is one such topic of investigation. A crucial issue in the field of corporate governance is the relationship between audit committee features and CSR disclosures. In corporations, audit committees are essential for monitoring reporting on finances, control systems, and managing risks. They play a crucial role in making sure that corporate activities are transparent, accountable, and ethical. The growing focus on CSR necessitates a greater comprehension of how audit committee features affect businesses' dedication to sustainable practices. The goal of the present research is to understand the complex relationships that exist between audit committee characteristics and the depth of CSR information provided, with a focus on the difficulties that organizational sustainability presents. This study aims to provide light on the relationship between audit committee size and the proportion of members who have financial understanding of the range of CSR disclosures. For organizations working in a dynamic business environment, understanding this link has theoretical as well as practical significance. The corporate governance, environmental responsibility, and CSR reporting sectors provide as the theoretical foundation for this study. The audit committee is one of the corporate governance frameworks that has been acknowledged as being essential for upholding transparency and accountability in firms. An efficient audit committee can improve the reliability of reporting on finances and reduce risks, helping to ensure the long-term viability of the business. A further reason why CSR issues must be incorporated into corporate strategies is the growing public's understanding of social and environmental issues. The study relies on the agency theory, that holds that shareholders and management may have conflicts of interest, requiring the use of strong governance systems that match their goals. Between these two groups, the audit commission acts as a go-between, regulating managerial choices and reporting on finances. The research extends this paradigm by examining whether specific audit committee traits have an effect on how CSR disclosures are incorporated into the organization's reporting practices. This study's main goal is to investigate the connection between auditing committee traits and the range of
CSR disclosures, with an emphasis on sustainability issues. The following goals are the focus of the study:

Examine the effect of the size of the audit committee on the quantity and detail of CSR disclosures in organizational reporting.

Analyze the impact of the proportion of those on the audit committee who have financial expertise on the volume of CSR disclosures.

Examine how CSR reporting and features of audit committees interact while taking the company's context for sustainability concerns into account.

The investigation uses an empirical investigation strategy and the Ordinary Least Squares (OLS) method to achieve these goals. The annual sustainability and income reports of industrial companies listed on the Bahrain Stock Exchange for the financial year 2020 are the source of the secondary data for the present research. The study seeks to reveal the intricate connections between audit committee features and the volume of CSR filings by utilizing available data. This work significantly alters the landscape of corporate governance and CSR, both theoretically and practically. The study advances our conceptual understanding of the relationship between auditing panel traits and CSR disclosures, particularly in light of sustainability issues. The study offers a greater understanding of the dynamics that motivate firms to embrace ethical business practices by illuminating this connection. The study also fills a significant gap in the literature by investigating the relationship between audit committee traits and CSR disclosures, specifically taking sustainability challenges into account. Although numerous elements impacting CSR reporting have been examined in previous research, the study's emphasis on the special function of audit committee characteristics in the context of sustainability offers a novel viewpoint. Practically speaking, the research's conclusions could influence corporate governance procedures and CSR plans within firms, not just in Bahrain but also in a larger international setting. The study's findings may serve as a roadmap for businesses as they develop comprehensive CSR plans that emphasize the strategic importance of audit committee characteristics including size and specialist composition. This might operate as a stimulus for further incorporation of CSR concerns into business processes, promoting sustainable growth and beneficial societal effects. A crucial aspect of contemporary corporate governance and sustainability activities is the relationship between the qualities of the audit committee and the volume of CSR disclosures. It is crucial for firms to comprehend how audit committee characteristics affect CSR reporting as they traverse the complex environment of ethical business practices. By analyzing this connection, especially in the context of sustainability challenges, this study seeks to close the gap in the literature. The research contributes to scholarly discussions and practical initiatives aiming at encouraging ethical and sustainable corporate behavior by expanding our understanding in this field.

2. Research Review

In the past few years, there has been a significant increase in the body of literature exploring the connection between audit committee traits and corporate social responsibility (CSR) declarations. The considerable contribution audit committees make to improving organizational accountability, openness, and governance processes has long been acknowledged by academics. Concurrently, the increased focus on CSR has motivated scholars to look into the elements affecting the quantity and caliber of CSR disclosures. The importance
of the features of audit committees in influencing CSR reporting methods is highlighted by this literature review, which digs into the important topics, results, and gaps across the scope of current study.

**Corporate governance and the characteristics of the audit committee**

The accuracy of accounting records and risk management are two things that the audit committee, which is a crucial part of corporate governance frameworks, ensures. The effects of features of audit committees on financial results and corporate value have been well researched by academics. However, a more sophisticated investigation of how these traits affect CSR filings has drawn interest recently. The quality of CSR disclosures is positively correlated with audit committee the declaration of independence, according to research by Fan and Wong (2005). This implies that audit committees with more independence might give ethical issues the top priority, resulting in improved CSR reporting.

**Knowledge of the audit committee and CSR Disclosures**

A significant impact affecting CSR disclosures has been discovered as the makeup of the audit committee, especially its members' financial knowledge. According to research by Wang and Qian (2011) and Aksu and Kosedag (2012), audit committees with a higher percentage of members who are financially literate are more likely to discuss CSR-related topics. This knowledge may result in a deeper comprehension of the financial effects of CSR programs, which could lead to disclosures that are more thorough and instructive.

**Size of the audit committee and CSR reporting**

Attention has also been drawn to the audit committee's size as a potential factor in CSR reporting. A wider diversity of opinions and skills may be represented on larger committees, resulting in more thorough scrutiny and decision-making. A prior study by Garcia-Meca et al. (2015) discovered a favorable correlation between the size of the audit committee and the volume of CSR disclosures. Greater stakeholder participation and an emphasis on non-financial components of corporate reporting was linked to larger committees. This shows that larger audit committees might offer a forum for CSR discussion and reporting procedures that are more robust.

**Challenges of Sustainability and CSR Reporting**

Although the link between audit committee traits and disclosures regarding CSR has been examined in a number of studies, little emphasis has been paid to the context of sustainability issues. Corporate initiatives that take sustainability into account face particular governance and reporting problems. According to De Villiers et al. (2016), sustainability concerns go beyond monetary considerations and need that businesses take into account both social and environmental effects. It is still not well understood how audit committee characteristics and CSR reporting interact in the context of environmental problems.

**Research Disparities and Approaches**

A number of gaps still exist in the growing amount of study on audit committee traits and CSR filings. First, investigations that specifically look at the connection in the context of sustainability concerns are required. While earlier studies concentrated on financial knowledge and independence, a deeper look is necessary to understand how audit committees help firms
navigate sustainability issues. Second, different studies use different methods of analysis; some use quantitative methods and others qualitative ones. The use of reliable empirical techniques, such as the Ordinary Least Squares (OLS) method put forth in this work, can improve the accuracy and dependability of results.

Theory and Practice Implications

The studied literature highlights both the theoretical and practical implications of the association between auditing committee features and CSR disclosures. As a starting point, the agency theory framework proposes that audit committees manage CSR reporting to reduce agency conflicts. Organizations can use these findings to improve their corporate governance arrangements from a practical standpoint. Companies can create committees that have greater potential to direct CSR reporting practices in an increasingly sustainability-focused corporate environment by highlighting the significance of audit committee independence, financial knowledge, and size.

3. Limitations

Although this investigation aims to advance our understanding of the connections between audit committee traits and corporate social responsibility (CSR) reports, there are a number of limitations that must be recognized. The generalization and understanding of the results of the research may be impacted by these restrictions.

1. Environmental Accuracy: For the fiscal year ending in 2020, industrial companies listed on the Bahrain Stock Exchange's annual and sustainability statements provided the secondary data that formed the empirical basis of the research. The legislation and business climate in Bahrain may be different from those in other locations, which could restrict the implications of the research to a more general worldwide setting. The links between audit committee characteristics and CSR disclosures may vary among nations because of differences in cultural norms, legal constraints, and expectations among stakeholders.

2. Causality and Directionality: The capacity to determine causal links between audit committee features and disclosures regarding CSR is constrained by the use of cross-sectional data. Although the study uses the Ordinary Least Squares (OLS) approach to evaluate the data, it's vital to understand that due to the inherent drawbacks of observational study designs, causation and orientation cannot be conclusively demonstrated. The observed relationships might be influenced by elements that the study's model did not take into consideration.

3. Data Availability and Quality: Different businesses may have different levels of data availability and quality for their annual and sustainability reports. Analyses may contain bias and inaccuracies due to inadequate or inconsistent reporting methods. Additionally, the availability of some variables, such as particular qualities of audit committee members and their functions, may vary, thus limiting the scope of the research.

4. CSR Disclosure Measurement: Depending on the techniques employed by the reporting firms, CSR Exposure evaluation and quantifying can be arbitrary. The research's emphasis on quantitative evaluations of CSR disclosures could leave out important aspects of a company's sustainability commitment. This quantitative analysis does not cover qualitative factors like disclosures' thoroughness and conformity to real procedures.
5. Possible Endogeneity: In empirical studies, endogeneity—the idea that the parameters of interest are influenced by factors that are not observable—can be problematic. Unobservable factors or missing variables may nevertheless have an impact on the observed associations between the features of audit committees and CSR disclosures despite efforts to adjust for factors that are confounding.

6. Changing Dynamics: Since the study's data is based on a single fiscal year, it is possible for the business environment, stakeholder expectations, and legal obligations to change over time. The significance of audit committee features in influencing CSR disclosures in following years may be influenced by the changing nature of CSR reporting and governance processes.

7. Complex linkages: Because the study concentrated on particular audit committee traits like size and financial knowledge, it did not take into account the possibility of linkages between these features and other systems of governance within firms. The observed associations could be distorted by the existence of additional factors, such as CEO salary, board composition, and sustainability panels.

8. Non-Financial Factors: Although the focus of this research focuses on the financial knowledge of auditing committees, other non-financial knowledge and abilities, such as environmental, social, and governance (ESG) understanding, may also be very important in determining CSR reporting practices. The research's focus on financial knowledge might obscure the wider factors necessary for thorough CSR disclosures.

These restrictions underline the need for careful interpretation of the study's findings and point to potential directions for further study, to sum up. Despite these limitations, the study offers important new perspectives on the intricate interaction between audit committee traits and CSR disclosures, especially in light of sustainability issues.

4. Conclusion

This study has combed through a substantial body of literature in an effort to better understand the complex relationship between audit committee traits and corporate social responsibility (CSR) disclosures. The research review provided insight on the theoretical, practical, and contextual components of this ever-present interaction and underlined the changing role of audit committees in defining CSR reporting procedures. Typically connected to oversight of finances, audit committees now play a vital role in influencing ethical and sustainable business procedures. Their size, autonomy, and financial knowledge have all been noted as crucial variables that affect the quantity and caliber of CSR reports. The structure of agency theory offered a prism using which to analyze the alignment of the company's objectives with those of shareholders and more lay aspirations. Theoretical ramifications stretch beyond corporate governance to include firms' ethical and open operations in a time of stakeholder monitoring.

From a practical perspective, the conclusions drawn from the research review offer insightful guidance for regulators, practitioners, and policymakers. These results can be used by legislators to develop legislation that encourage the creation of audit committees that are capable of navigating the complex terrain of CSR reporting, especially in light of issues related to sustainability. These understandings can be used by professionals who are in charge of administration and CSR strategy to improve the way they choose committee members and how sustainability and financial knowledge are integrated. The exploration voyage is not without its constraints, though. Contextual specificity, potential endogeneity, and the study's
dependence on cross-sectional data are crucial factors that call for care when interpreting the results. Additionally, the dynamic changes in the corporate environment and the growing character of CSR practices highlight the necessity of continued research in this area.

In general, the analysis of the literature found in this study highlights the essential part that audit committees play in advancing CSR disclosures. The role of audit committees in directing CSR operations becomes increasingly important as firms traverse an environment that is increasingly shaped by ethical requirements and stakeholder expectations. Future research projects targeted at elucidating the complexities of this complicated relationship and its implications for responsible and sustainable corporate behavior are made possible by the study's theoretical and practical contributions. The study's conclusions offer a compass for businesses looking to navigate the way toward a more moral and environmentally friendly future in a world where enterprises struggle to strike a balance between profit and the welfare of society.

References


