Impact of Audit and Remuneration Committee on Firm Performance: Evidence from Cement and Textile Firms of Pakistan Stock Exchange

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Abstract

The core purpose of this study is to empirically analyze the impact of audit and remuneration committees on the performance of the cement and textile firms listed on Pakistan Stock Exchange (PSX) for years 2012-2018.The methodology-The study focuses on the impact of attributes of audit and remuneration committees on firm performance. A simple random sampling technique is used to collect the secondary data from the cement and textile annual reports of the 63 cement and textile firms. The findings of the study support the postulation of agency theory and stewardship theory in the context of cement and textile industry of Pakistan. The study provides valuable inputs especially for the strategies of audit and remuneration committees to achieving the desired financial outcomes. Audit committee attributes have a positive and significant impact on firms return on asset (ROA) and return on equity (ROE). Likewise, remuneration committee's attributes also have positive and significant impact on return on asset (ROA). However, the relationship turns into insignificant when it comes to ROE which may be possible due to the fact that most of the firms in the sample are family-owned which do their best for their self-interests. It is concluded that board members having accounting and financial expertise helps in executing the compensation plan and improve the quality of financial information reporting which positive implications. The study also recommends that they should focus on the busyness of members on board, size of the board, independent members and, stakeholders to improve firm performance.

Keywords: Audit committee, Remuneration committee, Firm performance, Pakistan stock exchange.

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1.   Introduction

In a country like Pakistan, the economy of which is in the developing stage every corporation seeks/wants to increase their performance for this purpose they should generate and implement productive strategies to gain market shares. So, behind the success of any corporations, corporate governance contributes significantly in accomplishing desire objectives. The function of CG includes control the system, design standard, policies and procedures by higher, so organizations should be coordinated, directed or controlled with proper corporate governance (Owolabi & Dada, 2011).

Adopting better corporate governance organization should have to develop and maintain the audit committee for achieving the financial objective because it is a major part of the corporate governance to control accounting and financial activities of firms. It has an important duty of observing and checking the progress of corporate financial performance and financial reporting to increase the shareholder wealth and try to decrease the personal interest of the manager (Amer, Ragab, & Shehata, 2014; Kallamu & Saat, 2015; Bansal & Sharma, 2016). It is also explained by Herdjiono and Sari (2017) that in competitive world, company performance can be measured by the effectiveness of audit committee. As an illustration, executive management of audit committee, their remuneration, distribution of work, and independence of the auditor are free from the biasness between auditors whether internal or external and high-level management. Whatever the corporation has accounting policies, AC should analyze and follow those accounting policies (Zabri et al., 2016).

Remuneration Committee (RC) is one of the important boards in an organization by taking a different decision particularly in monetary and non-monetary rewards which includes salary, bonus, health insurance as well as the pension of firm's executives. It also performs some other different activities like monitoring and advising the board members in the form of rewards and salaries that are determined by their experience, skill and qualification (Mintah, 2016).

In modern economies, the performance of corporation is an important aspect for any economy because it shows the growth and sustainability of any country and also benefit for their stakeholders. From the last few years the economic condition of Pakistan is not stable because of the political environment which effect the corporate sector in the form of firm performance. For this purpose, quality of audit and remuneration is considered and is found to be not up to satisfactory level in most of countries including Pakistan. So empirically, the association between audit, remuneration and firm performance provides debatable information in developed countries, most of the studies represents that developed countries have great CG structure in the light of audit and remuneration committee, proper implementation

of financial activities, protection of ownership and investors investment opportunities that is why they achieve the desired financial firm performance. While in developing countries there were few studies Ansari, Gul, and Ahmad (2017); Aryan (2015); Bansal and Sharma (2016); Imani, Homayoon, and Zamani (2016); Khan, Ali, and Boudiab (2017); Kanapathippillai, Johl, and Wines (2016), Kallamu and Saat (2015) and Yasser, Al-Mamun, and Suriya (2015) conducted in audit and remuneration and these studies focus on the audit and remuneration committee separately but the gap remains in the area of audit and remuneration committee on firm performance and did not find any literature in the context of Pakistan so this study shows an interest by considering the impact of audit and remuneration committee on firm performance by considering the cement and textile firms that are listed in Pakistan stock exchange. These two sectors have great importance and contribution to the economy of Pakistan in the area of infrastructure and fabrication. The study has tow overarching objectives. First , to identify the impact of the audit committee on firm performance. Second, to examine the impact of the remuneration committee on firm performance.

2.   Literature Review

2.1   *Theoretical Expostion*

2.1.1   *Agency Theory*

This study is supported by agency theory formulated by Jensen and Meckling (1976). This theory is also considered by Fama (1980) and both authors Fama and Jensen (1983) take an interest by providing information about agency theory. According to the theory, there are two parties involved in agency theory that is the owner (principal) and the manager (agent). The objective of the owner is to maximize their return on investment and expect from managers to perform to their interest but if the manager works for his own interest then it will create a conflict of interest. It clarifies that BODs plan and initiate a participative role in the achievement of the firm's objectives. Zahra and Pearce (1989) explain that if owners and management do not communicate the information with each other than how firms can achieve their objective.

Agency theory also explains the financial rewards given to the manager to maximize the shareholders interest to reduce the financial losses. This type of reward needs a plan where the management of the corporation receive shares with a reduce price to increase the interest of management that are connected with other shareholders so by the help of this, management will increase firm performance in the long run (Donaldson & Davis, 1991; Jensen & Meckling, 1976).

2.1.2   Stewardship Theory

Davis, Schoorman, and Donaldson (1997) analyzed that there is link a between shareholders and managers who operate for the betterment of the organization. Stewardship theory explains that managers of firms perform duties for the betterment of owners which will increase the performance of the firm in long run whilst in agency theory agents only focus on their self-interest. This theory also explains that if management has more power for doing the activities it means that they are trust worthy to run corporations.

Specifically, steward focuses on ultimate goals which will be better for the advance-ment of firms. The difference between these two theories is that agency theory pays particular attention to external satisfaction which is measured by market value to gain motivation, and the required achievement from the market to create a reputation in the market. Besides, the manager in stewardship analyzes that if an organizations financial performance is achieved, the individual can be satisfied. On the other side, this theory also relates that there should be proper monitoring and controlling function to design the structure of the organization so that can be maintained.

2.2   Theoretical Implications

The present study is explained in the light of two theory that is agency and steward-ship theory to understand their implication. Mainly agency theory highlights the association between principal and agent. In agency theory, there is a conflict between the goal of princi-pal and manager which will affect the performance of the firm. The principal is considered as the owner tend to maximize the return to their shareholders in the long run and agent have usually a role in the operation of firms' activities for their own interest. Due to these reasons conflict arises and firm performance is affected. On the other hand, the stewardship theory highlights both parties' agent and principal based on psychological and social perspectives. Stewardship theory realizes that if a firm achieves the desire goals and objectives, the need and utility of personnel will be achieved.

2.3   Audit Committee and Firm Performance

Ashari and Krismiaji (2020) explain that audit committee characteristics have posi-tively affected the performance of firms. Puwanenthiren (2020) argues that audit committee attributes have a significant correlation with the performance of firms. Chou and Buchdadi (2017) noted that to increase the firm performance; better operational activities should be designed for this purpose the number of AC members has a great influence on the firm. In a country like Australia , results suggests that the audit committee has increase change in firm

performance (Gani, Wijeweera, & Eddie,2017). Srinivasa and Palaniappan (2016) study show that board independence, audit committee consolidated attributes add to the performance of different firms. The association among aggregate score and the firm's performance is observed to be insignificant & positive in India. Hamdan, Sarea, and Reyad (2013) study outcome declare a significant & positive association among AC, financial outcomes and stock performance. Similarly, Al-Matari et al. (2012) also explains that AC and firm performance have a positive affiliation between them.

H1: There is a positive impact of AC on firm performance

2.4   *Size of AC and Firm Performance*

In 2012, PCCG acknowledge that in AC there should minimum of three members. Although Khan, Ali, and Boudiab (2017) consider the audit committee and results represents that ACS and firm performance have an insignificant relationship between them which means that ACS did not increase the value of the firm. Similarly, Al-Matar, Al-Swidi, and Fadzil (2014) finding study indicates that ACS and firm performance have a positive insignificant connection between them. Kipkoech and Rono (2016) study results represent that ACS has a significant effect on the performance of firms. Al-Matari et al. (2012) study outcome was found that ACS and firm performance have a negative association among variables.

Ho: There is a negative impact of ACS on the performance of the firm
H1: There is a positive impact of ACS on the performance of the firm

2.5   *Meeting of AC and Firm Performance*

ACM is a very important aspect of the audit committee in the area of corporate governance. Khan, Ali, and Boudiab (2017) results represent that ACM and firm performance have a significant positive association between them. Similarly, Amer, Ragab, and Shehata (2014) study find that ACM is positive and significantly related to firm performance. Bansal and Sharma (2016) highlighted that frequencies of ACM have an insignificant impact on the performance of firms. Al-Matari et al. (2012) find that ACM represents an insignificant association with the performance of the firm. Al-Mamun et al. (2014) gives a point of the view about the daily meeting of AC which represents that regular meetings of AC could help to decrease the agency problems and also provide effective and timely information to investors.

Ho: There is an insignificant impact of ACM and performance of firms
H1: There is a significant impact of ACM and the performance of firm

2.6   Independence of AC and Firm Performance

The presence of an independent director in AC represents better monitoring in the firms audit and financial reporting affairs and this independent of board members brings a strong connection with firm affairs to achieve the desire financial objectives (Al-Najjar, 2014). Bansal and Sharma (2016) study represents that ACI shows a significant positive association with the performance of firms. Kallamu and Saat (2015) results shows that independence of AC enhances the performance of firms. Al-Matari et al. (2012) represent that ACI does not influence on the performance of firms in Saudi Arabia. Similarly, Al-Matari et al. (2014) in Oman focusing characteristics of audit and executive directors on performance of firms show that BI has a significant negative association with the performance of firms.

Ho: There is a negative impact of ACI on the performance of firms
H1: There is a positive impact of ACI on the performance of firms

2.7   Financial Expert or Literacy and Performance of firms

Hamid and Aziz (2012) said that in every organization directors of AC needs financial and technical expertise to design, plan and implement the affair of audit and finance which will help to support external auditor in board meetings. So, from results, the study found that AC financial expert has significant and also a positive impact on the performance of firms. Another study conducted by Hamdan, Sarea, and Reyads (2013) results explains that ACFL has a positive relationship with the firm's performance. Bouaziz (2012) study concluded that firm performance increases if the firms have a majority of directors having financial experts in the AC board.

H1: There is a significant impact of ACFL and the performance of firms.

2.8   Remuneration Committee and Performance of Firms

In Pakistan, there is a lack of studies conducted on attributes of the remuneration committee with firm performance but worldwide, studies are empirically conducted but limited. In the view of Agency theory arguments, discussion shows that the remuneration committee contributes a great role in the light of agency problems between management and shareholders of the firm (Fama & Jensen ,1983). Harymawan et al. (2020) study represent that remuneration committee is positively related to firm performance. Lam and Lee (2012) conducted a study and findings represent that association among RC performance of firms is negative. Another study Kallamu and Saat (2015) results clarify that RC shows a positive and significant association with firm performance. Similarly, Main and Johnston (1993) shows a negative impact of RC on the performance of firms.

Ho: There is a negative impact of RC on the performance of firms.
H1: There is a positive impact of RC on the performance of firms.

2.9   Size of RC and Firm Performance

Size board is believed to play an important role in monitoring the management, board efficiency which will become the better performance of firms (Fauzi & Locke ,2012; Zahra & Pearce, 1989). Haniffa and Hudaib (2006) suggested that if firms try to boost the performance, the size of the board should be small to be easily monitored and become very helpful in achieving firm overall performance. Akpan and Amran (2014) study results conclude that the size of the board shows a positive and significant relationship to firm performance. Liang, Xu, and Jiraporn (2013) results explain that the size of the board has a negative impact on the performance of firms. Similarly, Izic and Ince (2016) identify that the size of committee has a significant and positive impact on the financial performance of firms.

Ho: RCS and performance of firms represent negative association with each other.
H1: RCS and performance of firms represent negative association with each other.

2.10   Independence of RC and Performance of Firms

The Code of corporate governance divides the board into executives and non-executives directors these directors are either independent or non-independent directors. The actions of the CEO are monitored by non-executive directors (NEDs) and provide surety to the shareholder by skill and expertise executive directors that their interest will be maximized (Nahar, 2004; Weir & Laing, 2001). Johl, Kaur, and Cooper (2015) study result represents that independent members do not affect the performance of firms. Khan and Awan (2012) identify that there is a positive affiliation between NEDs and the performance of firms. Similarly, Adebayo, Olusola, and Abiodun (2013) results of the study discovered a positive and also significant association among BI and performance of firms. Guo and Kga (2012) study found that NEDs and firm financial performance shows a negative relationship.

Ho: RC independent and performance of firms represent negative association with each other.
H1: RC independent and performance of firms represent negative association with each other.

2.11   Remuneration Committee Chairman Independence and Performance of Firms

The third attribute of RC is chairman independent on the board. Very limited literature is available so according to Tao and Hutchinson (2013), the presence of an independent chairman will make effective decisions in RC and prevent the interference of the executive in

the affairs of the committee. The company will be in a prudent position to monitor the compensation of directors if the committee is chaired by independent directors and ensure the compensation plan is aligned with the risk-taking activities of managers and long-term objectives of the corporation.

H1: RCCI and performance of firms represent significant association with each other.

2.12   *Remuneration Committee Financial Expert and Performance of Firms*

The presence of members who are experts in finance in the remuneration committee will improve the company performance but those members who have accounting expertise and finance industry-related experience monitor the affairs of company finances as well as the industry practices effectively and efficiently (Tao & Hutchinson, 2013). According to Adams and Jiang (2020) study found that financial experts present on board will be beneficial and influence the performance of firms. Contrarily, Guner, Malmendier and Tate (2008) explain that the presence of directors having financial knowledge on board does not have any relationship with the firm's compensation policy. Garcia, Martínez, and García (2017) results explain that financial expertise and accounting performance of firms have a positive effect on each other.

H1: RCFX and performance of firms represent a positive association with each other.

2.13   *Meetings of RC and Performance of Firms*

Another important characteristic of RC is board members meeting if the frequency of meeting attended by the board of members to discuss the companies' affairs improving performance. A study conducted by Garcia and Garcia (2011) results shows that meetings of the board have a positive effect on the performance of firms. Hoque, Islam, and Azams (2013) study analysis show that RC meeting is positively and significantly associated with the performance of firms.

H1: RCM and performance of firms represent a positive association with each other.

2.14   *Firm Size and Performance of Firms*

Niresh and Thirunavukkarasu (2014) study results show that firm size and profitability have no relationship with each other. In Sritharans (2015) study, it was found that FS is positively associated with firm profitability (ROA) using the fixed-effect model analysis. However, Dogan (2013) describes that FS has a positive connection with profitability. Akbas and Karadumans (2012) study outcomes declare that FS and profitability represent a positive association with each other. Also, Vijayakumar and Tamizhselvan (2010) results declare that there is a positive association between FS and profitability was found.

Ho: FS on the performance of firms represent negative association with each other.
H1:   FS and performance of firms represent positive association with each other.

3.   Methodology

Every study focuses on reliable and valid results for this purpose the researcher constructs an effective design to conduct research. The present study uses a quantitative method to examine the impact of independent and dependent variables of cement and textile firms listed at PSX. This study used a secondary source that is annual reports to collect the data which are listed in PSX for7 years from 2012-2018. All the variables are executed or run through statistical software (SPSS 20). There is a total of 35 sectors in the Pakistan stock exchange. The study focuses only on manufacturing sectors and in manufacturing sectors, cement and textile are selected having a great contribution to the economic variables of Pakistan because the cement industry is concerned with the infrastructure of the country and the textile industry is with the fabrication. So, all firms that are present in the cement and textile industry are the population of study which are incorporated into PSX. The cement industry includes 21 firms and the textile industry includes 148 firms. The study uses simple random sampling technique. According to Yamane's (1967) cement industry, there are 21 firms and select 20 firms while in the textile industry there are 148 firms and select 109 firms with the help of the above mentioned-equation. But on the availability of the firm's annual reports and data, the cement industry includes 16 firms and the textile industry includes 56 firms. Thus, total sample size is 63 firms, 15 from cement and 48 from textile firms.

3.1   *Conceptual Framework Model*

Thoroughly review of literature a conceptual framework is used to design the association among AC and RC and firm performance by considering different authors Amer, Ragab, and Shehata (2014); Khan, Ali, and Boudiab (2017); Kanapathippillai, Johl, and Wines (2016); Kallamu and Saat (2015).
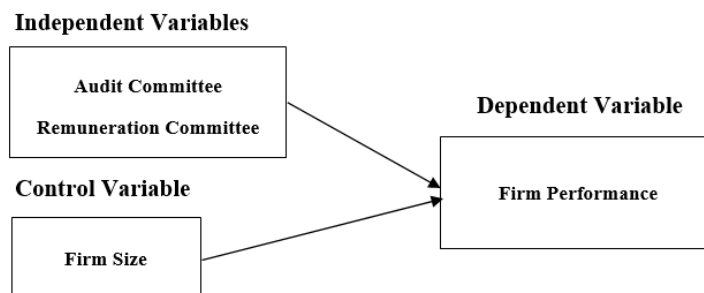

Figure 1: Conceptual Frame work

3.2   Measurement of Variables

In this part of the study all variables of the audit committee, remuneration committee, firm size and firm performance used in research are explained which are present in annex A Table 1: variable summary.

3.3   Hypotheses

From the above discussions, the present study is based on the following hypotheses:

H1: Audit committee and performance of firm's have a significant impact on each other.
H2: Remuneration committee attributes and performance of firm's have a significant impact on each other.
H3: Firms 'size and performance of firms have a significant impact on each other.

3.4   Data Analysis

To analyze and interpret the material data, various statistical tools are used that is descriptive statistics, correlation, and auto correlation, multicollinearity, the goodness of fit, explained variation, and regression analyst is used to analyze the impact of attributes of AC, RC and performance of firms. Before the data analysis study apply the five assumptions of regression on variables through SPSS 20 to clean the data.

3.5   Regression Model

The following are the different multiple regression models (MRM) that are designed to check the impact and association among the audit and remuneration committee attribute on firm performance.
$Y = \alpha + \beta X + e$

For Audit Committee

Firm performance $= \alpha + \beta 1(\text{Audit Committee Attributes})_{it} + e_{it}$

3.5.1   Model 1

$PERF = \beta 0 + \beta 1(\text{ACS})_{it} + \beta 2(\text{ACM})_{it} + \beta 3(\text{ACI})_{it} + \beta 4(\text{ACFL})_{it} + \beta 5(\text{FS})_{it} + e_{it}$

For Remuneration Committee

Firm performance $= \alpha + \beta 1$(Remuneration Committee Attributes)$_{it} + e_{it}$

3.5.2 Model 2

$$PERF = \beta 0 + \beta 1(RCS)_{it} + \beta 2(RCI)_{it} + \beta 3(RCCI)_{it} + \beta 4(RCFX)_{it} + \beta 5(RCM)_{it} + \beta 6(FS)_{it} + e_{it}$$

4.   Data Analysis

4.1   Descriptive Statistics

Table 1
Descriptive Statistics

	N	Min.	Max.	Mean	Std. Deviation
ACS	441	3	6	3.26	0.58
ACM	441	0	8	4.39	0.93
ACI	441	.00	1.00	0.87	0.22
ACFL	441	.16	.66	0.31	0.04
RCS	441	3	5	3.14	0.41
RCI	441	.00	1.00	0.77	0.20
RCCI	441	0	1	0.90	0.29
RCFX	441	.20	.66	0.45	0.17
RCM	441	0	5	1.29	1.11
FS	441	6.17	10.63	8.50	1.22
ROA	441	-.68	0.39	0.02	0.10
ROE	441	-.94	0.93	0.15	0.20

The above descriptive table represents the 441 observations for the period of 2012-2018. For example, ACS has a min value of 3, and the max value is 6. The mean value of ACS is 3.26 with a standard deviation of 0.58. ACM represents the min value is 0 and the max value is 8 with the mean value of 4.39 and the SD is 0.93. RCS min value is 3 and the max value is 5 which represents the member's size of the committee. The mean value is 3.14 and the SD of RCS is 0.41. The RCI has min value is 0.00 and a max value is 1.00 having a mean value of 0.77, the standard deviation is 0.20. The RCCI has a min value is 0.00 and a max value is 1 with a mean value of 0.90 with a standard deviation of 0.29 same as other variables of audit and remuneration.

4.2   Multicollinearity Test

In research, there are two methods used to check the multicollinearity that is correlation coefficient and tolerance and variance inflation factor (VIF). According to Hair et al. (2010) given that the correlation coefficient is not greater than 0.80, tolerance greater than .10 and VIF values is less than 10, so all outcomes are in acceptable range therefore there is no issue of multicollinearity problem exists.

4.3   Correlation Test

The below table represents the correlation among variables. The range of correlation exists between the values from -1.0 to +1.0. If the value of correlation is +1, correlation is positive, the value of correlation is 0 means there is no correlation among variables and the value of -1 means there is a negative association among variables.

In the correlation table some variables have a positive and some have a negative relationship between them. All those variables which have two ** mean that variables have a significant positive and negative association at the 0.01 level, variables that have one * means that variables have a significant positive and negative association at the 0.05 level and without an asterisk, the sign means that some variables have positive insignificant and some have a negative insignificant correlation with each other.

4.4   Regression Test

The study uses a regression test to identify the impact among two or more dependent and independent variables. In this study different statistical tests implement to identify the impact of AC and RC attributes on firm performance. These test runs along with the regression analysis that is autocorrelation, multicollinearity, the goodness of fit, explained variation. The following are regression tests to find the impact of variables.

Table 2
Correlation

	ACS	ACM	ACI	ACFL	RCS	RCI	RCC	RCFX	RCM	FS	ROA	ROE
ACS	1											
ACM	-.04	1										
	.41											
ACI	.34**	-.02	1									
	.00	.67										
ACFL	-.41**	.00	-.39**	1								
	.00	.96	.00									
RCS	.58**	-.07	.34**	-.49**	1							
	.00	.10	.00	.00								
RCI	.14**	-.14**	.58**	-.12*	.41**	1						
	.00	.00	.00	.01	.00							
RCCI	-.04	-.04	.08	.08	.07	.27**	1					
	.42	.34	.10	.11	.13	.00						
RCFX	-.21**	.12*	-.04	.22**	-.44**	-.19**	-.13**	1				
	.00	.01	.39	.00	.00	.00	.00					
RCM	-.02	.17**	.05	.04	-.03	.06	.12*	.09	1			
	.64	.00	.28	.41	.48	.17	.01	.06				
FS	-.27**	-.07	.05	.20**	-.15**	.18**	.21**	.05	.30**	1		
	.00	.16	.31	.00	.00	.00	.00	.24	.00			
ROA	.28**	.01	-.28**	-.18**	.09	-.06	-.02	-.05	-.08	-.20**	1	
	.00	.85	.00	.00	.06	.02	.59	.30	.09	.00		
ROE	.02	.02	-.01	-.02	.02	.02	-.02	.03	.01	-.06	.07	1
	.55	.70	.78	.64	.68	.64	.71	.49	.76	.16	.12	

**. Correlation is significant at the 0.01 level (2-tailed)
*. Correlation is significant at the 0.05 level (2-tailed)

4.4.1   Regression Analysis of Audit committee

Table 3

Audit committee impact on ROA and ROE

Model						
Independent	**ROA**		**ROE**		**Collinearity Statistics**	
Variables	**Coefficients**	**T**	**Coefficients**	**t**	**Tolerance**	**VIF**
Constant	-.121 (0.282)	- 1.076	2.079 (0.770)	.293		
ACS	.069 (0.000)	4.922	.154 (0.863)	.173	0.330	3.034
ACM	.012 (0.021)	2.412	.323 (0.013)	2.125	0.989	1.011
ACI	.025 (0.000)	3.730	-.131 (0.754)	-.314	0.831	1.203
ACFL	.198 (0.031)	2.173	.658 (0.012)	2.024	0.329	3.036
FS	-.009 (0.024)	- 2.268	-.307 (0.235)	-1.190	0.900	1.111
R	0.743		0.505			
R-Square	0.552		0.256			
Adjusted R-square	0.328		0.109			
F Change	13.179		9.437			
Sig	0.000		0.023			
Std. Error	0.099		6.278			
D-W	1.986		2.010			
Observation	441		441			

In this table, Adj R2 is called the coefficient of determination, and the value of Adj R2 is 0.552 means that 55.2% of changes in ROA are defended by the AC attributes while the remaining changes 44.8% are defended by other variables. The F value is 13.179 which means that the overall model is fitted with the significant value is 0.000. The audit committee size shows a positive association and significant with ROA because the value of t-statistics is 4.922 and the significant value is 0.000 less than the 0.05. ACM, ACI, and ACFL show a positive association and significant with ROA, the FS also represent the significant negative association with the dependent variable. So according to Amer, Ragab, and Shehata (2014), the results of ACS and ACI are matched with the present study which explains that ACS and ACI represent have a significant relationship with ROA.

So, on the other side of the audit committee and firm performance that is ROE, Adj R2value is 0.256 which is understood that 25.6% changes in ROE are explained by the AC attributes while remaining defend 74.4% is explained by other variables. The F value is 9.437 means that the overall model is fitted with the significant value is 0.023 because of P<0.05. In regression analysis ACS shows a positive association with ROE but insignificant results 0.863 > 0.05 with a t-value 0.173 matched with previous study Al-Matari, Al-Swidi, and Fadzil (2014). ACM represents a positive association and having a significant t-value that is 0.013<0.05 with ROE. ACI shows a negative association and insignificant 0.754 with ROE. ACFL shows a positive and significant 0.012<0.05 association with the firm performance that is ROE. The control variable which represents a negative and insignificant 0.235>0.05 relationship with firm performance, that is ROE. The above discussion is matched with the studies by Amer et al. 2014; represent that ACS, ACI, and FS are insignificant with the firm performance that is ROE while ACM and ACFL represent positive and significant association with ROE.

4.4.2   *Regression Analysis of Remuneration Committee*

The remuneration committee is another independent variable. The below regression table represents the impact of RC on the performance of firms (ROA). The value of adjusted R2 which is the coefficient of determination is 0.452 which is understood that 45.2% changes in ROA are described by the RC while the remaining variation 54.8% is described by other variables. The F value is 9.944 which means that the overall model is fit because the significant value is 0.001<0.05. RCS has a positive and significant 0.014 < 0.05 relationship with ROA, the result is similar with previous studies Akpan and Amran (2014), Izic and Ince (2016) they also represent the positive significant association with ROA. RCI has also positive and significant 0.030 < 0.05 associations with firm performance (ROA) and is matched with previous study by Khan and Awan (2012) which represent the positive significant association with ROA. RCCI, RCM, represent a positive sign but FS show negative but significant (0.047, 0.024, and 0.00 < 0.05) association with performance of firms (ROA) and these outcomes are match with Garcia et al. (2017), Hoque et al. (2013), Tao and Hutchinson (2013) these studies represent same results that is RCCI, RCM, represent a positive significant but FS show negative significant association with ROA.RCFX shows a negative insignificant association with ROA and does not match with studies already done by Adams and Jiang (2020); Tao and Hutchinson (2013), noted that RCFX shows a positive association and significant with the performance of the firm that is ROA .From the above regression table, another impact is the RC and firm performance (ROE).

Table 4

Remuneration committee impact on ROA and ROI

Model						
Independent	**ROA**		**ROE**		**Collinearity Statistics**	
Variables	**Coefficients**	**T**	**Coefficients**	**t**	**Tolerance**	**VIF**
Constant	.196 (0.015)	2.443	3.438 (0.480)	.707		
RCS	.025 (0.014)	2.083	-.133 (0.868)	-.166	0.667	1.499
RCI	.014 (0.030)	2.798	.278 (0.565)	.575	0.765	1.308
RCCI	.036 (0.047)	2.296	-.268 (0.760)	-.306	0.876	1.142
RCFX	-.156 (0.305)	-1.027	-1.537 (0.868)	-.167	0.788	1.269
RCM	.005 (0.024)	2.493	.203 (0.470)	.723	0.903	1.107
FS	-.015 (0.000)	-3.753	-.399 (0.131)	-1.514	0.851	1.174
R	.672		.081			
R-Square	.452		.007			
Adjusted R-square	0.394		-.007			
F Change	9.944		.480			
Sig	0.001		0.824			
Std. Error	10.370		6.280			
D-W	1.877		2.014			
Observation	441		441			

The value of R2 is very minimum i.e. 0.007 mean that 0.7% change in ROE is defended by the RC while the remaining change is 99.3% defend by other variables and F-value is 0.480 which means that model is not fit with the insignificant value that is 0.824>0.05. All the attributes of RC show an insignificant relationship that is the value of p>0.05 with ROE. Results are matched with Lam and Lee (2012) and do not match with the studies already done by Adams and Jiang (2017), Akpan and Amran (2014), Dogan (2013), Johl, Kaur, and Cooper (2015),Tao and Hutchinson (2013).

4.5   Hypotheses

Table 5
Summary of Hypotheses

	Hypotheses	Result
H1	The audit committee and performance of firms (ROA) have a significant impact on each other.	Supported
H2	The audit committee and performance of firms (ROE) have a significant impact on each other.	Supported
H3	The remuneration committee and performance of firms (ROA) have a significant impact on each other.	Supported
H4	The remuneration committee and performance of firms (ROE) have a significant impact on each other.	Unsupported
H5	Firms' size and performance of firms (ROA)have a significant impact on each other	Supported
H6	Firms' size and performance of firms (ROE)have a significant impact on each other	Unsupported

5.   Conclusion

The core purpose of the study is, to identify the impact of AC and RC on firm performance in Pakistan by considering the cement and textile firms. In today's changing and developing competitive world, governance and boards are an important key variable for any organization to increase the performance. As the world become in a challenging situation, firms try to maximize profits and also increase shareholder wealth. In corporate sectors, non-financial firms have played an important Role in developing the economic condition of any country.

The finding of the study explains that the attributes of AC that is ACS show a positive association and significant with the ROA it means that a firm with an increased number of audit committee size it will leads to increase the firm performance. ACM, ACI, and ACFL show a positive association and significant with ROA, means that firms conducting regular meetings with the help of which actual position is presenting in front of BODs, AC members have knowledge of finance and accounting expertise and representing the true picture in the form of financial reporting due to which the desire firm performance is achieved and the more independent members in AC will be a benefit for firm performance because they highlight firms accounting and audit results very effectively and efficiently. Firm size also represents the significant but negative relationship with the dependent variable which represents that firm size affects firm performance but negatively because firms are increasing their size for profit maximization but cannot manage it properly.

Another finding of the study is AC attributes and ROE. The results indicate that ACS shows a positive affiliation with ROE but insignificant results because larger ACS reduces firm performance due to the problem of free rider and without considering member arguments. ACM represents a positive significant association with ROE these meetings represent the effective results to their shareholders. Audit committee independent shows a negative insignificant association with ROE because most of the members hold equity in the firm and are engage in monitoring the affairs of the firm. Audit committee financial literature shows a positive significant association with the performance of firms. Firm size; which represents a negative affiliation and insignificant with the performance of firms. So, the overall model represents a significant affiliation with the performance of firms (ROE).

Remuneration committee attributes is another independent variable. The finding of the remuneration committee points out that RCS has a positive affiliation and is significant with ROA. Remuneration committee independent, remuneration committee chairman independent and remuneration committee meeting have also a positive significant affiliation with the performance of the firm (ROA) means that meetings are conducted by the remuneration committee to provide the effective opinion in the form of remuneration to the directors and employees of the firms. In this committee majority of the board members are independent because they are giving an effective suggestion to the firm to increase firm performance.

The committee is chaired by the independent director because the chairman enables the committee to effectively monitor the compensation policies and follows the rules of the remuneration committee provided by the code of the corporate governance consistent with previous studies and FS show negative affiliation and significant with the performance of firms (ROA). RCFX shows the negative insignificant association with the firm performance that is ROA so members having the knowledge of financial and accounting but not presented properly for taking the effective decision in the form of compensation to the board members. The overall findings explain that the RC has a significant association with the performance of firms (ROA).

On the other hand, RC has an insignificant association with the firm performance that is ROE. All the attributes of RC show insignificant results with firm performance these outputs are matched with the prior results. It's all because most of the firms are family-owned firms and they do their best for their own that is self-interest.

5.1   *Recommendations*

1. Management of cement and textile firms should focus on the board's busyness because of their busyness they will not give proper time to firms.

2.   Form the results it is clear that firms with committees that is audit and remuneration, their attributes show a great emphasis on ROA as compared to ROE so it is recommended for firms boards to implement rules and code of different attribute designed by PCCG to enhance the ROE because shareholders have mainly focus on return on equity.

3.   This study also recommends that the regulatory authorities should have to clearly define the role of the member having accounting and expertise in finance in remuneration and audit committee to execute compensation plan in the interest of management.

4.   Furthermore, all those stakeholders who have as association with firms focus on financial information to make the proper decision for this purpose true picture of financial information is present by independent board members so firms should rely on independent members because they are truthful.

5.2   Limitations and Future Directions

1.   The core of the study is the audit and remuneration committee to predict the performance of firms. For future researchers, other attributes may be incorporated to improve the firm performance in-depth.

2.   This study considered only two theories that are agency and stewardship, the future researcher can also examine the other theories that are stakeholder, institutional and resource-based theory.

3.   For further study, other researchers should also focus on the financial firms that are listed in PSX.

4.   The finding of the study is only generalized to those firms that are similar to the firms which are included in this study.

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Appendix

Table 1
Variables Summary

Variables		Measurement	References
ACS	Audit committee size	It explains the presence of members present in ACS	(Tao & Hutchinson, 2013)
ACM	Audit committee meeting	Number of Meeting carried out by AC members in year	(Khan, Ali, & Boudiab, 2017)
ACI	Audit committee independent	Number of NED serving in the AC	(Al-Matar, Al-Swidi, &Fadzil, 2014)
ACFL	Audit committee financial literate	Number of AC members having the knowledge of finance and accounting divided by total number of AC members	(Amer, Ragab, & Shehata, 2014)
RCS	Remuneration committee size	The number of remuneration committee member	
RCI	Remuneration committee independent	Number of IND board members in RC	(Kanapathippillai, Johl, & Wines,2016)
RCM	Remuneration committee meeting	Meeting that are carried in year by RC members	
RCCI	Remuneration committee chairman independent	If chairman is independent in RC then assign the one and if chairman is not an in independent then assign zero.	(Kallamu & Saat, 2015)
RCFX	Remuneration committee financial expert	Proportion of directors with accounting qualification and finance industry experience.	(Kallamu & Saat, 2015)
FS	Firm size	Taking Logarithm of TA	(Niresh &Thirunavukkarasu, 2014)
ROA	Return on asset	$\dfrac{\text{Net Profit}}{\text{Total assets}}$	(Sanda, Garba, & Mikailu, 2011).
ROE	Return on equity	$\dfrac{\text{Net Profit}}{\text{Total Equity}}$	