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The impact of board diversity on financial reporting quality in the GCC listed firms: the role of family and royal directors

Omar Ikbal Tawfik[a], Faozi A. Almaqtari[b]*, Waleed M. Al-ahdal[b], Abdul Aziz Abdul Rahman[c] and Najib H. S. Farhan[d]

[a]Department of Accounting, College of Commerce & Business Administration, Dhofar University, Salalah, Oman; [b]Department of Accounting, Faculty of Business, Economics and Social Development, University Malaysia Terengganu, Terengganu, Malaysia; [c]Finance and Accounting Department, College of Business Administration, Kingdom University, Riffa, Bahrain; [d]Department of Finance, Universal Business School, Mumbai, India

ABSTRACT

The present study examines the impact of board diversity on financial reporting quality with special consideration of the extent to which family and royal directors influence financial reporting quality (FRQ). The study utilises a sample of 181 listed GCC firms over the period from 2010 to 2016. Board personal attributes, including board expertise, age, gender, and nationality are investigated along with some other board issues such as; board size, meetings, and independence. Panel data analysis with fixed and random effect models are conducted to estimate the results. The results reveal that companies with large board size and greater age have less FRQ. Further, the results report that institutional founders, higher board independence, and expertise associate with greater levels of FRQ. The results also find that board meetings and family founders negatively influence FRQ. However, female directors, foreign directors, and royal board members setting in the board did not contribute to the levels of FRQ in the sampled companies. Finally, the results indicate that companies with a CEO royal member have higher levels of FRQ however, companies with chair board royals have less levels of FRQ. This research has valuable implications for investors, board of directors, analysts, academicians, and policymakers.

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1. Introduction

The board of directors has a vital role in monitoring the operations and activities of the company, which is necessary for the decision-making process (Alghamdi, 2012). According to agency theory, the primary responsibilities of the board of directors are to monitor management in enhancing corporate value and improving the quality of

CONTACT Faozi A. Almaqtari fouzi_gazim2005@yahoo
*additional affiliation: Department of Accounting, Commerce and Economics College, Hodeidah University, Hodeidah, Yemen.

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financial reporting (Fama & Jensen, 1983). In addition, the members of the Board of Directors represent the interests of the shareholders, and their oversight roles emphasise the decision-making process to avoid problems between management and shareholders. To improve the role of the board of directors over management, agency theory suggests a higher proportion of the board's external directors (Al-Rassas & Kamardin, 2015). Financial reports are a means of communicating information about the company's activities to users of accounting information; the quality of financial reporting is a function of the quality of the accounting standards and the corresponding regulatory enforcement of the standards. The quality of financial reports can be affected by three variables: the decision of the standard setters; the accounting method used by management, and management estimates in applying the selected alternatives. Therefore, enforcement is an essential mechanism for improving the quality of financial reports whose absence will make the best accounting standards unable to provide reliable and reliable accounting information to various users (Aliyu & Ishaq, 2015).

Users rely primarily on information provided through the company's annual reports that are expected to be relevant to the company's activity, reliable, credible, and fairly present the company's financial position and business results (Kusnadi et al., 2016). Research related to accounting has shown that companies' annual financial reports communicate information about the company's activities to users of accounting information, and they are primary sources of information used by shareholders and creditors (Roychowdhury et al., 2019). The quality of the financial reports is a function of the quality of the accounting standards used. Therefore, providing high-quality and reliable information about the company's activities to stakeholders in general and to shareholders in particular is one of the most important objectives of financial reporting (Barth et al., 2008). The Jordan Report (2019) showed that quality in financial reporting reduces information asymmetry and agency costs and thus increases investment efficiency. In the same context, the Chairman of the US Securities and Exchange Commission stated that investors and capital markets have a strong desire for high-quality information about current corporate performance and future prospects (Clayton, 2020). The importance of financial information has forced the US Securities and Exchange Commission to participate in four projects to enhance this quality, one of which is dealing with ACs (Ali, 2021). A review of the accounting literature revealed that FRQ is a critical issue for all stakeholders in making their various decisions and enhancing market efficiency (Ali, 2021). Higher quality financial reporting also increases investment efficiency, providing managers with high-quality information to help them make efficient investment decisions.

The quality of financial reports in the GCC markets is still questionable because most Gulf markets are considered modern. In addition, reporting requirements are not as strong as in existing markets. Therefore, it can be argued that the quality of financial reporting in developing countries is expected to be more critical because regulations in developing economies are less efficient compared to developed economies (Almuzaiqer, 2018). Moreover, the Gulf states are ruled and controlled by royal families. Due to their status, Members of the royal family enjoy special seats on the boards of directors in many companies and hold much influence over the

decision-making process (Hussain et al., 2002). Almuzaiqer (2021) argue that the royal family members on the board of directors enhance financial reporting quality. Because the members of the royal family are appointed as managers, and management works properly when members of the royal family closely monitor them. Al-Hadi et al. (2017) argue that members of the royal family have power over the economic and political systems in the GCC region. In addition, members of the royal family on the board of directors play an essential role in achieving business results.

Similarly, Mazaheri (2013) and Al Nasser (2019) argue that members of the royal family may look to standards of reputation and thus attempt to defend investors' rights. Therefore, members of the royal family on the board are more likely to be more independent and provide the company and shareholders with more protection, even in difficult times. Moreover, members of the royal family may prefer not to attract negative attention to the market. Hertog (2012) also confirms that the presence of members of the royal family on the board of directors enables them to stop government interference that may hinder the company's economic and international expansion. On the other hand, Royal family owners have access to the private information of the investee firms; thus, they can expropriate minority shareholders' benefits and use low-quality financial reports to hide their behaviour (Alghamdi, 2012). The royal family in Kuwait holds 45 board seats, which is 4.1% of the total board seats of the 177 listed companies (Halawi & Davidson, 2008). Royal family members dominate Saudi companies. They hold roughly 10 percent of all boardrooms in listed corporations (Alzharani & Che-Ahmad, 2015).

Based on the above discussion, the present research aims to explore the influence of board diversity on the level of financial reporting quality in the GCC-listed firms. The study investigates the association between board diversity, family directors, and royal directors and their effect on the quality of financial reporting. Accordingly, the current research is of two-fold objectives. Firstly, it examines the impact of board diversity on financial reporting quality. Board personal attributes, including board expertise, age, gender, and nationality, are investigated along with other board issues such as; board size, meetings, and independence. Secondly, the paper attempts to assess the extent to which family and royal directors influence the quality of financial reports of the GCC listed firms.

This study focuses on the GCC countries, which make several contributions to the strand literature. First, there are many developments and reforms in corporate governance (CG) regulations and financial reporting reforms in the GCC member states. For example, Oman issued a revised CG code in 2015, KSA in 2017, UAE in 2020, and Bahrain in 2018. Further, Saudi Arabia has adopted IFRS and made it compulsory for all business entities to comply with IFRS since 2017, affecting the businesses' financial reporting.

Second, although some studies have been conducted in the GCC countries, the results of these studies stem from developed countries, which may be less pertinent for the GCC countries as they have unique institutional settings and regulations. Further, according to (Basco et al., 2020), 'listed firms in the GCC have a high degree of ownership concentration.' The ownership concentration of listed non-financial firms is higher than that of listed financial firms. State ownership is usually the largest shareholder, and its presence as a shareholder is positively related to a firm's size. The prevalence of families as the largest shareholder varies across GCC countries,

with the UAE having the highest proportion and Qatar the lowest. Basco et al. (2020) indicate that GCC countries present a significantly low number of widely held corporations since most listed firms are controlled by large share-holders, such as the state, families, and holding companies. They report that the state is the largest ultimate shareholder in the GCC region, controlling 22.5% of listed firms, followed by holding companies (19.9% of firms), families (15.9% of firms), corporations (15.7% of firms, financial institutions (9.1% of firms), then institutional investors (6.9% of firms), and the remaining 10.2% of firms have no controlling shareholders, i.e., firms are widely held. This leads to raise a crucial research question on the influence of royal and family directors on FRQ in the GCC corporates. Accordingly, the ownership concentration and the proportion of royal and family shareholders in public corporates in the GCC necessitates the investigation of the role of royal and family directors in FRQ.

Third, unlike UAS, China, Turkey, and some European countries, GCC countries share comparable socio-economic and cultural backgrounds, which are indicated by Hofstede's (1983) score for considerable power distance and strong uncertainty avoidance. This is not the only reason; the institutional settings, regulatory bodies that regulate both CG and financial reporting, and the political regimes of these countries are also comparable. This is supported by the European experience where the adoption of IFRS in 2005 was made compulsory for these countries; these countries share similar practices. Further, focussing on GCC countries is supported by the economic theory of network (Ramanna & Sletten, 2009), which assumes that the trading relationship among countries may push these countries to adopt similar business regulations. In addition, this is supported by memetic isomorphism, which depicts the imitation of a country to another regarding some practices (Pricope,2016; 2015).

Finally, although, several studies have been found in the context of the GCC countries (e.g., Al-ahdal et al., 2021; Al-Ahdal et al., 2020; Al-hadi et al., 2017; Almaqtari et al., 2021; Al-Ruithe & Benkhelifa, 2020; Arayssi & Jizi, 2019; Azid & Alnodel, 2019; Buallay, 2019; Buallay & Hamdan, 2019; Hashed & Almaqtari, 2020; Mertzanis et al., 2019; Sian et al., 2020; Tessema, 2019); however, none of these studies have introduced evidence on the role of family and royal directors in the context of the impact of board diversity on financial reporting quality in the GCC listed firms.

The rest of this paper is organised as follows: Section 2 provides a theoretical framework, Section 3 reviews the existing literature, Section 4 demonstrates the followed research methodology, Section 5 discusses the findings, and Section 6 concludes.

2. Theoretical framework

2.1. Corporate governance in the GCC

Equity markets in the countries of the GCC are promising and continuously developing. (Al Nasser, 2019). Because of globalisation, investors are no longer only local (Mansur & Delgado, 2008), as foreigners have shown interest in investing in this promising region (Mansur & Delgado, 2008). The financial markets in the region have grown significantly in the last two decades and have attracted both regional and international investors, which necessitated enhancing transparency and protecting

investors (Zeitun, 2014). Moreover, the GCC region has witnessed a remarkable increase in foreign direct investment in recent years (Al Nasser, 2019). Kim et al. (2017) argues despite the small size of the market, it plays a vital role in issuing debt instruments across global borders where investors have easy access to these instruments. The GCC countries are trying to integrate with the global economy by building competitive markets and having good corporate governance practices to enhance investor confidence (Tsamenyi & Uddin, 2008).

Awareness of good governance and improved disclosure became a major and controversial issue only at the beginning of the twenty-first century when Gulf authorities introduced it and implemented a series of corporate governance reforms (Abdallah & Ismail, 2017; Al-Malkawi et al., 2014). These reforms aimed at strengthening corporate governance, in addition to amending the Company Law, the Securities and Exchange Law and other related regulations. However, the full adoption of governance practices and transparency measures continues to face challenges due to the region's conservative investment culture (Alghamdi, 2012), which is manifested in poor information disclosure, unwillingness to give up royalty, and control by large bloc owners. Sported to this argument, a survey conducted by Pearl Initiative and PWC. (2018) showed more than (100) family businesses in the GCC region. However, the majority of these companies believe in the importance of corporate governance to ensure the long-term health of their business. But, they consider them less important than other challenges they currently face, such as operational, commercial, and overall profitability concerns.

Oman has been a pioneer in developing corporate governance in the GCC countries. It issued a guide to corporate governance rules in 2002 and was also the first country in the GCC countries to establish an independent capital market authority. In 2015, the Capital Market Authority (CMA) issued a new corporate governance guide, which included additional rules for regulation, accuracy, and access to the best levels of transparency and disclosure.

In Saudi Arabia, the Capital Market Authority (SACMA) issued a corporate governance law titled 'Corporate Governance Regulations in the Kingdom of Saudi Arabia' (CMA 2017). The guide was amended in 2009 and 2017 into a governance regulation, and it is applicable to all listed companies on a compliance and clarification basis, except for companies that are subject to the supervision of other bodies.

The issuance of the Corporate Governance Code in the UAE dates back to 2004 when the Abu Dhabi Securities Exchange issued its first draft Corporate Governance Code that was revised in 2005 (Hassan, 2012). In 2020, the corporate governance code for Public Joint Stock Companies was issued. This constitutes a qualitative leap in strengthening institutional discipline in relations and management in public joint-stock companies following international standards and methods. All public joint-stock companies must comply with its provisions.

The Bahraini Corporate Governance Law began to be drafted in 2006, and it was expected to implement in 2007. However, the Corporate Governance Law was not promulgated until 2010; it was drafted on a compliance and clarification basis. The code applies to companies and financial institutions listed on the financial market. In 2018, the Ministry of Industry and Trade issued Decision No. (19) Regarding the

issuance of a corporate governance and management charter, which has become mandatory implementation for joint-stock companies, with the exception of companies exempted by the Central Bank of Bahrain.

The Kuwaiti Corporate Governance Law began to be drafted in 2006, and it was expected to implement it in 2007. However, the Corporate Governance Law was actually issued in 2013 with a mandatory implication. This code applies to companies listed on the stock exchange and licenced joint-stock companies, whether listed or unlisted in the stock exchange, with the exception of units subject to the supervision of the Central Bank and non-Kuwaiti companies listed on the stock exchange at a time.

2.2. Financial reporting practices in the GCC

The Gulf Cooperation Council is a trade bloc that includes six Gulf countries: Saudi Arabia, Oman, UAE, Bahrain, Kuwait, and Qatar. The Gulf region is one of the rapidly growing economies, like China and other Asian countries, mainly due to booms in oil and gas prices. The nominal GDP of the GCC countries increased from $377.69 billion in 2000 to $1,659.88 billion in 2019 (Assad & Alshurideh, 2020). The corporate community in the GCC countries consists of 'national' family businesses, branches of major multinational corporations, and various joint ventures between local Gulf businesses and foreign firms. Corporate ownership in the GCC tends to be mainly undistributed to family/government members compared to the Western economic environment (Martini et al., 2016).

All GCC countries apply IFRS standards. In Bahrain, Article 219 of the Commercial Companies Law requires all companies to use IFRS standards. According to the Saudi Organization for Certified Public Accountants (SOCPA), all companies listed in the stock market must apply IFRS as of January 2017. In the United Arab Emirates, according to UAE Federal Law No. (2) (2015), all listed companies must implement IFRS as of 1 July 2016. In Kuwait, the KAAA, as a national professional accounting body, requires all listed companies to mandatorily apply IFRS. In Oman, all companies are required to apply IFRS, as approved by the International Accounting Standards Board, without any amendment. In Qatar, all listed companies are required to apply IFRS standards. The adoption of a single set of high-quality accounting standards by companies around the world has received significant support across the globe. The main argument behind this is that using a single set of accounting standards would enhance the comparability and transparency of financial information. Capital market decision-makers also have high-quality information especially if these accounting standards are applied in a rigorous and consistent manner (Daske et al., 2008); this would create more integrated capital markets leading to the efficient allocation of funds, and lower cost Capital, the influx of foreign investment. Armstrong et al. (2010) believes that the application of international accounting standards in financial reporting is less costly for investors to compare corporate business results, facilitates cross-border investments (Aggarwal et al., 2005; Lin et al., 2016), and promotes capital market integration (Covrig et al., 2007). This would encourage foreign investment to flow into countries and thus improve capital market liquidity, share risk

and lower the cost of capital (Merton, 1987). (Cai & Wong, 2010) found that having a single set of internationally accepted standards in financial reporting Reduces accounting diversity between countries. Hence, it helps in facilitating the movement of capital across borders and promoting the integration of global financial markets. Similarly, DeFond et al. (2011) found that reliance on International Financial Reporting Standards (IFRS) enhances the qualitative characteristics of accounting information, and also helps in attracting greater investment by foreign mutual funds (Gordon et al., 2012), because Developing countries need more international funds compared to developed countries. In other words, there is a strong relationship between the application of IFRS and increased FDI (Chen & Rezaee, 2012; Daskalopoulos et al., 2016; Kainth & Wahlstrøm, 2021). Several studies indicate that the adoption of IFRS improves information content, and increases the quality of financial reports (Chiou & Chang, 2020; Dou et al., 2019; Shahzad et al., 2019). In the past few years, the GCC countries have expanded their economy significantly through trade and finance, and this expansion has led to the adoption of International Financial Reporting Standards, which in turn has increased the legitimacy of the GCC state as a worthy location for foreign investment. This expansion has increased the legitimacy of the GCC state as a worthy location for foreign investment.

3. Literature review and hypotheses development

3.1. Theory background

The present study attempts empirically to investigate board diversity influences financial reporting quality taking into consideration the role of family and royal directors. The present study draws on agency, resource dependency, and economic theories. We adopt the economic theory based on our empirical evidence from the GCC countries. This theory argues that international and regional trade among different countries could lead to unified and similar business practices and regulations (Pricope, 2016; Ramanna & Sletten, 2009). Further, this study draws on agency theory, which postulates that the agency cost may arise due to the conflict between shareholders' interests (the principal) and management (agent). According to this theory, greater ownership concentration would enhance the principal's monitoring on agent's activities, leading to that agent should act and maximise the principal's best interest and avoiding any possible agent's self-serving decisions (Buallay & Hamdan, 2019). Based on agency theory, the present study builds on the argument that board of directors can represent a mechanism to increase the level of control in management activities, and improve the quality of information. Some characteristics of the board, such as size, independence, level of activity, and diversity, can be essential to corporates performance (Ali, 2021). More specifically, this theory suggests that board attributes, particularly board independence contributes to better monitoring functions on management activities, which maximise the shareholders' interest and mitigate the agency cost (Alhaji et al., 2013; Ameer, 2013; Khan et al., 2021). Board independence knowledge, expertise, diversity, and proportion add valuable resources to the board of directors' functions, which lead to enhanced board monitoring and effectiveness (Khan et al., 2021). A similar argument also made by the resource dependency theory argues that

effective board members positively influence board effectiveness due to the collective expertise and experience (Kavitha et al., 2019). Independent and expertised board members will be better able to understand corporate financial attributes and enhance their managerial monitor functions due to their diversity, accumulated experience, skills, and knowledge, among other characteristics (Hunda, 2016).

3.2. The relationship between board demographic characteristics and FRQ

Hambrick and Mason (1984) and Hambrick (2007) found that board demographic factors, such as - gender, age, education, and tenure, enhance firm performance. Kagzi and Guha (2018) report that there exists a positive linear relationship between the overall board demographic diversity index (board gender, age, tenure, and education) and firm performance. Further, board demographic diversity is based on demographic criteria, such as – board's background, nationality, gender, age, educational, functional, and occupational backgrounds (Hafsi & Turgut, 2013). Ud Din et al. (2021) investigate the relationship between the expertise of female audit committee (AC) chairs and financial reporting quality. This study found that the accounting expertise of AC female chairs enhances financial reporting quality better than their male counterparts. Garcia-Sanchez et al. (2017) confirmed the monitoring role of both female and financial experts, noting a positive effect on accounting conservatism and earnings quality in banks. Firoozi et al. (2016) investigated how a firm's financial reporting quality relates to board gender diversity. Results depict no significant relationship between board gender diversity and financial reporting quality. Damagum et al. (2014) examined the impact of women on corporate boards on financial reporting quality. Results provide robust evidence to suggest that the presence of a female director does not particularly improve the quality of financial reporting. Gavious et al. (2012) also found evidence of a negative relationship between women on boards and earnings management. Additional analysis indicates that there is a positive relationship between the proportion of female directors and the value of the firm.

> Board members from a similar age category share the same experiences, which favor board cohesiveness and group thinking. Berger, Kick and Schack (2014) suggested that group thinking arising in a more homogeneous top management team and the lack of diversifying influences in board meetings are not the main factors that can account for the observed increase in portfolio risk. Instead, the higher portfolio risk after the board change seems attributable to the appointment of younger, more risk-oriented executives. Conventional wisdom and empirical evidence suggest that risk-taking decreases with an individual's age. Hafsi and Turgut (2013) indicate that a disadvantage of board age diversity is that it leads to low corporate social performance.

Park and Shin (2004) argued that only those who have expertise in finance or accountings are capableto supervise companies' earnings management activities. Zainal et al. (2009) revealed that a higher degree of independent directors increases financial reporting quality due to their experience variety, characteristics, traits, and ability, which may upgrade essential initiative structures. Kankanamage (2016) confirmed that board expertise significantly affects financial reporting quality. Aifuwa and Embele (2019) revealed that board expertise was statistically significant and positively related to financial reporting quality. However, Nalukenge et al. (2017) argued that accounting

qualification and age have no significant correlation with the quality of financial reporting. Hashim and Abdul Rahman (2011) could not provide any evidence on the link between board independence and board expertise on audit report.

Lee et al. (2013) revealed that listed firms in China that have a higher percentage of foreign ownership and would be expected to enhance their financial reporting quality more under IFRS-converged CAS. Similarly, subsequent research found a positive relationship between the increase in foreign ownership, governance transparency, and earning responsive coefficient (Dong & Xue, 2010). Further, Prior studies reported that high-quality financial reporting efficiently protects against insider trading and weak investor protection in emerging capital markets such as Malaysia (Leventis & Weetman, 2004). Some other studies concluded that foreign ownership is linked with higher corporate transparency and lower information asymmetries (Aggarwal et al., 2011). Likewise, Srithanpong (2013) found that foreign ownership has a significant positive impact on the financial reporting quality of the companies in Thailand. Accordingly, we hypothesis that:

H1: There is a positive association between financial reporting quality and board demographic characteristics (gender, age, expertise, and nationality).

3.3. The relationship between board size and FRQ

Mbir et al. (2020) argued that the relationship between IFRS compliance and reporting quality revolves around some enforcement mechanisms like corporate governance structures. The study found that board size will enhance the positive effect of IFRS compliance on reporting quality. Ahmed et al. (2006) rather found that smaller boards are more effective in ensuring high level of reporting quality. Ibrahim and Jehu (2018) examined the relationship between board composition and financial reporting quality. The study shows that there is no significant between board size and quality of financial reporting. On the other hands, Chalaki et al. (2012) investigated the effect of board size on financial reporting quality in firms listed in Tehran Stock Exchange during the period of 2003 to 2011. Results found that there is a significant correlation between board size and financial reporting quality. In addition, Rotich (2017) found that board size has a positive and significant effect on the quality of financial reporting. Hence, the hypothesis is formulated as follows:

H2: There is a positive association between financial reporting quality and board size.

3.4. The relationship between board independence and FRQ

Chen et al. (2015) indicated that higher level of board independence will check the manipulations that occur in financial statements. They also found that independent directors' monitoring is more effective in a richer information environment. (Holtz & Sarlo, 2014; Kantudu & Samaila, 2015) found that board independence is significantly and positively related to financial reporting quality. Mbir et al. (2020) found that board independence has a significant impact on financial reporting quality. On the contrary, Qinghua et al. (2007) examined the relationship between board composition

and the quality of financial reporting. Results show that independent board directors are not significantly related to the quality of financial reporting.

On the contrary, Cornett et al. (2009) discovered that there is a negative relation between board independence and financial reporting quality. Nalukenge et al. (2017) investigated the relationship between corporate governance and internal controls over financial reporting. The results also show that board independence is not a significant predictor of financial reporting quality. Aifuwa and Embele (2019) board independence was found to be insignificantly related to financial reporting quality. Based on this background, we hypothesised that:

H3: There is a positive association between financial reporting quality and board independence.

3.5. The relationship between board diligence and FRQ

Vafeas (1999) documented that firms with higher meeting frequencies are likely to improve monitoring quality. Rotich (2017) concluded that board meetings have a significant effect on the quality of financial reporting. Also, the study found that the frequency of board meetings increases the level of financial reporting quality. However, Qinghua et al. (2007) found that board meeting frequency is not significantly related to financial reporting quality. Chou et al. (2010) found a high attendance rate at board meetings is a potentially important vehicle for monitoring managers particularly ensuring adequate information dissemination. Further, Cai et al. (2009) stated that maintaining an excellent attendance record at board meetings allows the board to better fulfil its fiduciary duties and responsibilities in the best interests of all shareholders.

H4: There is a positive association between financial reporting quality and board diligence.

3.6. The relationship between board, CEO category and FRQ

According to agency theory, the diversity of the board of directors may help managers to perform their duties properly (Jensen & Meckling, 1976). Similarly, resource theorists argue that diversity of directors is necessary for a company to access future capital or manage contingencies (Halawi Pfeffer & Salancik, 1978). Membership of the royal family on the board is categorised as ethnic diversity. Che-Ahmad et al. (2006) examined the influence of the main ethnic groups in Malaysia on the selection of the auditor. They found that these groups have a significant impact on the process of selecting auditors. Richard (2000) also examined the relationship between cultural (ethnic) diversity, corporate performance, and business strategy in the banking sector. He found that cultural diversity has a positive association with performance. In addition, Richard et al. (2013) found that participatory strategy positively mediates the relationship between ethnic diversity in management and company performance measured by return on assets. Alzharani and Che-Ahmad (2015) examined the presence of members of the royal family on the board of

directors of companies listed in the Saudi market. The study found that family members have a significant impact on the performance of companies. This study provides evidence of the role played by members of the royal family in reducing from conflicting agencies and inconsistency of information. AL-Nasser and Jayasekera (2016) found that the presence of royal family members on the board of directors increases the quality of profits in Saudi firms. The results of the study also show that members of the royal family can provide the necessary oversight on behalf of the shareholders and can They help access the company's needed resources. The results of Al Nasser (2019), show that companies with many independent royals on the board have better performance and better value. In addition, companies with a large number of family members enjoy better performance and value. The owner of the board of directors performs better. The results of Almuzaiqer et al. (2021) showed that the presence of members of the royal family on the board of directors of listed companies in the United Arab Emirates is highly linked with financial reporting timeliness. This study provides evidence of the role played by elite groups (members of the royal family) in the United Arab Emirates in strengthening the role of the board of directors. The results also indicated that the independence of the Board of Directors, the size of the audit committee, the expert of the audit committee, and the company's profitability are closely related to the timely issuance of financial reports. Therefore, based on agency theory and resource theory, we hypothesise that:

H5: The presence of royal directors in the board room has a positive association with financial reporting quality.

4. Methodology

4.1. Data collection and sampling

The present study sample comprises listed firms in the GCC from 2010 up to 2016. The selection excludes all firms operating in the financial sector, including banks, insurance, and investment companies, as they are subject to different financial reporting requirements. The sample starts from 2010, a year after the economic crisis of 2009. Further, this year was chosen because there was a financial crisis in UAE before 2010. In the same context, the sample period ends in 2016 for two reasons. First, the data extracted from the Bloomberg data stream, recent data after 2016, was not available. Second, KSA adopted IFRS in 2017, making the inclusion of recent years difficult to compare as there will be two sets of accounting standards for the same country. Accordingly, the present study utilises data for a sample of 181 listed firms from the GCC. At the initial stage, data was collected for 269 firms (KSA:96; UAE: 31; Qatar: 17; Bahrain:11; Kuwait: 10; Oman: 104); however, 88 firms were excluded due to missing and unavailability of some data. This makes a final sample of 181 firms is used, which is distributed as 69 firms from KSA, 23 firms from UAE, 13 firms from Qatar, six firms from Bahrain and Kuwait each, and 64 firms from Oman. Table 1 demonstrates the sample of the present study:

Table 1. Study sample.

Details	KSA	UAE	Qatar	Bahrain	Kuwait	Oman	Total
No. of. The extracted firms from the Bloomberg database	96	31	17	11	10	104	269
(-) No. of firms with missing data	27	8	4	5	4	40	88
Final sample	69	23	13	6	6	64	181

Source: Prepared By The Researchers.

Table 2. Operational definition of variables.

Variable	Acronym	Definition
Dependent variable		
Financial reporting quality	FRQ	FRQ is measured using McNichols (2002) models. The model equation is as follows: $\frac{TCA_{j,t}}{AS_{j,t}} = \beta_{0j} + \beta_{1,j}\ \frac{CFO_{j,t-1}}{AS_{j,t}} + \beta_{2j}\frac{CFO_{j,t}}{AS_{j,t}} + \beta_{3j}\frac{CFO_{j,t+1}}{AS_{j,t}} + \beta_{4j}\frac{\Delta REV_{j,t}}{AS_{j,t}} + \beta_{5j}\frac{PPE_{j,t}}{AS_{j,t}} + \varepsilon_{j,t}$ Where; $TCA_{j,t}$ of a firm j is aggregate current accruals in year t, CFit denotes the current period operating cash flows, CFit-1, and CFit + 1 refer to operating cash flows of the previous and next periods, respectively, ΔREVit is the change in revenues, and PPEit signifies the property, plant, and equipment of a firm.
Independent variables		
Board expertise	BEXP	The proportion of board members with financial and managerial expertise to the total No. of board members
Age	AGE	The average age of the board members
Board size	BSIZE	The No. of the board members setting in the board
Board meetings	BMET	Total No. of meetings attended by all board members divided by the total No. of meetings held during the year
Board gender	BGEN	1 if there is a female director and 0 otherwise
Board independence	BIND	The proportion of independent board members to the total No. of board members
Foreign director	FRDIR	1 if there is a foreign director and 0 otherwise
Royal director	RODIR	1 if there is a royal director and 0 otherwise
CEO royal	CEORO	1 if the CEO is a royal member and 0 otherwise
Chair royal	CHRO	1 if the board chair is a royal member and 0 otherwise
Family founder	FMFOND	1 if there is a family founder and 0 otherwise
Institutional gounder	INSFOND	1 if there is an institutional founder and 0 otherwise

Source: Prepared By The Researchers.

4.2. Econometric tools and model specification

The present study uses panel data analysis for 181 firms for seven years, from 2010 to 2016. The current study has used panel data analysis with a fixed-effect model. The study uses five regression models to eliminate the multicollinearity and endogeneity issues arising from including variables of the same nature. Following is Table 2 that describes the variables used by the present study:

Following are the research the models that are used by the current study:

$$FRQ_{jt} = \beta_0 + \beta_1 BEXP_{it} + \beta_2 AGE_{it} + \beta_3 BSIZE_{it} + \beta_4 BMET_{it} + \beta_5 BGEN_{it} + \beta_6 BIND_{it} + \beta_7 FRDIR_{it} + \beta_8 RODIR_{it} + \varepsilon_{it} \quad (1)$$

$$FRQ_{jt} = \beta_0 + \beta_1 BEXP_{it} + \beta_2 AGE_{it} + \beta_3 BSIZE_{it} + \beta_4 BMET_{it} + \beta_5 BGEN_{it} + \beta_6 BIND_{it} + \beta_7 FRDIR_{it} + \beta_8 RODIR_{it} + \beta_9 CEORO_{it} + \varepsilon_{it} \quad (2)$$

$$FRQ_{jt} = \beta_0 + \beta_1 BEXP_{it} + \beta_2 AGE_{it} + \beta_3 BSIZE_{it} + \beta_4 BMET_{it} + \beta_5 BGEN_{it} + \beta_6 BIND_{it} + \beta_7 FRDIR_{it} + \beta_8 RODIR_{it} + \beta_9 CEORO_{it} + \beta_{10} CHRO_{it} + \varepsilon_{it} \quad (3)$$

$$FRQ_{jt} = \beta_0 + \beta_1 BEXP_{it} + \beta_2 AGE_{it} + \beta_3 BSIZE_{it} + \beta_4 BMET_{it} + \beta_5 BGEN_{it} + \beta_6 BIND_{it} + \beta_7 FRDIR_{it} + \beta_8 RODIR_{it} + \beta_9 CEORO_{it} + \beta_{10} CHRO_{it} + \beta_{11} FMFOND_{it} + \varepsilon_{it} \quad (4)$$

$$FRQ_{jt} = \beta_0 + \beta_1 BEXP_{it} + \beta_2 AGE_{it} + \beta_3 BSIZE_{it} + \beta_4 BMET_{it} + \beta_5 BGEN_{it} + \beta_6 BIND_{it} + \beta_7 FRDIR_{it} + \beta_8 RODIR_{it} + \beta_9 CEORO_{it} + \beta_{10} CHRO_{it} + \beta_{11} FMFOND_{it} + \beta_{12} INSFOND_{it} + \varepsilon_{it} \quad (5)$$

5. Analysis and discussion

5.1. Descriptive statistics

Table 3 provides descriptive statistics for the variables of the study. The results also show that female director, the number of foreign directors, and the number of royal directors on the board all have a minimum value of zero with a maximum value of 3, 7, and 5, respectively. The average values of these variables are 0.135, 0.994, and 0.4 90, respectively. This indicates that, on average, 14% of the board members are female directors, 99% of the sampled companies have foreign directors on their board, and 49% of the sample companies have Royale directors in their board room. Further, the results show that board Independence has a minimum value of zero, which indicates the non-existence of independent board members in the board room with a maximum value of 15, which means that some companies have a maximum of 15 members out of 17 members of the board members as independent directors. The average value (5) indicates that the sampled companies have five independent board members in their board room. The results show that the family founder and institutional

Table 3. Descriptive statistics.

Variables	Minimum	Maximum	Mean	Std. Dev.
FRQ	−1.145	0.827	0.000	0.215
BEXP	1.00	15.000	5.440	2.057
AGE	2.00	66.000	24.104	12.901
BSIZE	3.00	17.000	7.928	1.741
BMET	0.00	17.000	5.819	2.084
BGEN	0.00	3.000	0.135	0.388
BIND	0.00	15.000	5.057	2.298
FRDIR	0.00	7.000	0.994	1.548
RODIR	0.00	5.000	0.490	0.973
CEORO	0.00	1.000	0.026	0.160
CHRO	0.00	1.000	0.208	0.406
FMFOND	0.00	1.000	0.212	0.409
INSFOND	0.00	1.000	0.429	0.495
SEC	1.000	3.000	1.289	0.601

Source: Prepared By The Researchers.

founder all have a minimum value of zero and a maximum value of 1. These values indicate the categorical value that has been assigned for these variables. The mean values for these variables are 0.212 to 0.135, which suggests that 21% and 14% of the sampled companies have a family founder or an institutional founder, respectively.

5.2. Correlation analysis

The results in Table 4 show a correlation analysis that demonstrates the correlation among the study variables. The results show that financial reporting quality is significantly correlated with board expertise, board meetings, foreign directors, CEO royals, chair royal, family founder, and institutional founder. While board expertise, board meetings, CEO royals, and chair royal have a significant negative correlation with financial reporting quality, foreign directors, family, and institutional founders exhibit a significant positive correlation with financial reporting quality. This indicates that board expertise, board meetings CEO royal, and chair royal contribute negatively to the quality of financial reporting; however, foreign directors, family, and institutional founders contribute and play a significant positive role in improving the reporting of financial quality. All other variables exhibit a significant correlation with a maximum correlation value of 0.54 in the case of the correlation between chair royal and founder royal. This indicates the absence of multicollinearity problems as the highest value is less than 0.70.

5.3. Panel data analysis

The results in Table 5 demonstrate an estimation of panel data analysis for the study models. The results show that BSIZE has a statistically significant negative impact on FRQ ($p < 0.01$) in all the estimated models. This indicates that companies with large board size have less financial reporting quality than companies with small board size. Further, the results show that AGE negatively and significantly impacts FRQ ($p < 0.01$), indicating that old companies have less financial reporting quality than smaller companies. The results also reveal that board expertise has a statistically significant positive impact on financial reporting quality across the estimated models ($p < 0.01$). This indicates that more excellent board expertise associates with higher levels of financial reporting quality, and companies with a higher number of board expertised in accounting and finance areas have greater levels of FRQ. In the same context, BMET exhibits a negative and significant association with financial reporting quality ($p < 0.01$). Furthermore, the results show that BIND has a statistically significant positive impact ($p < 0.01$)on financial reporting quality, which indicates that a greater number of board independent members setting on the board associates with higher levels of financial reporting quality. However, the results exhibit that BGEN, FRDIR, and RODIR have an insignificant impact on financial reporting quality ($p > 0.10$) statistically. This indicates that female directors, foreign directors, and royal board members setting in the board did not contribute to the levels of financial reporting quality in the sampled companies.

Table 4. Correlation analysis.

	FRQ	SEC	AGE	BSIZE	BIND	BEXP	BMET	BGEND	FRDIR	CEORO	CRRO	RODIR	INFOND	ROFOND	FMFOND	FAMDIR
FRQ	1															
SEC	−0.01	1														
AGE	0.05	−0.06*	1													
BSIZE	−0.05	−0.01	0.15*	1												
BIND	−0.05	0.01	0.01	0.37*	1											
BEXP	−0.12*	−0.09*	0.07*	0.61*	0.27*	1										
BMET	−0.07*	−0.07*	−0.01	−0.10*	0.05	0.04	1									
BGEND	0.02	0.00	−0.11*	−0.03	0.03	0.05	0.05	1								
FRDIR	0.08*	0.14*	−0.08*	0.01	0.14*	−0.03	−0.05	0.03	1							
CEORO	−0.12*	−0.08*	0.22*	0.10*	0.00	0.17*	0.03	−0.06*	−0.07*	1						
CRRO	−0.06*	−0.04	0.15*	0.23*	−0.04	0.38*	0.00	−0.03	−0.12*	0.32*	1					
RODIR	−0.04	0.05	0.12*	0.25*	−0.09*	0.42*	0.00	−0.06*	−0.07*	0.35*	0.71*	1				
INFOND	−0.05	0.02	−0.23*	−0.17*	0.140*	−0.15*	−0.12*	0.00	0.24*	−0.14*	−0.25*	−0.26*	1			
ROFOND	−0.04	−0.03	0.09*	0.23*	0.01	0.32*	0.03	−0.03	0.04	0.21*	0.54*	0.50*	−0.31*	1		
FMFOND	0.10*	0.07*	0.14*	−0.08*	−0.15*	−0.251*	−0.01	0.00	−0.07*	−0.06*	−0.13*	−0.19*	−0.45*	−0.08*	1	
FAMDIR	0.12*	0.04	0.22*	−0.03	−0.01	−0.10*	0.01	−0.01	−0.05	0.04	−0.10*	−0.07*	−0.05	−0.04	0.24*	1

Source: Prepared By The Researchers.

Table 5. Regression analysis.

Variable	Model (1)	Model (2)	Model (3)	Model (4)	Model (5)
C	0.190***	0.188***	0.203***	0.212***	0.192***
	(0.018)	(0.016)	(0.019)	(0.021)	(0.024)
	[10.366]	12.105	10.612	10.037	8.130
BSIZE	−0.011***	−0.011***	−0.011***	−0.011***	−0.011***
	(0.003)	(0.003)	(0.004)	(0.003)	(0.004)
	[−3.181]	[−3.317]	[−3.129]	[−3.186]	[−3.149]
AGE	−0.006***	−0.006***	−0.006***	−0.006***	−0.006***
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
	[−5.149]	[−5.399]	[−5.439]	[−5.226]	[−5.188]
BEXP	0.007***	0.007***	0.007***	0.007***	0.007**
	(0.002)	(0.002)	(0.002)	(0.002)	(0.003)
	[3.323]	[3.473]	[3.262]	[3.350]	[2.663]
BMET	−0.004***	−0.005***	−0.004***	−0.004***	−0.004***
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
	[−6.071]	[−5.683]	[−6.017]	[−6.202]	[−6.071]
BGEND	−0.007	−0.007	−0.007	−0.007	−0.007
	(0.015)	(0.014)	(0.015)	(0.015)	(0.015)
	[−0.501]	[−0.465]	[−0.476]	[−0.493]	[−0.501]
BIND	0.003**	0.003**	0.003**	0.003**	0.003**
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
	[−1.997]	[−2.030]	[−2.078]	[−2.072]	[−1.980]
FRDIR	0.001	0.001	0.002	0.001	0.001
	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)
	[0.169]	[0.156]	[0.425]	[0.189]	[0.173]
RODIR	−0.009	−0.009	−0.006	−0.009	−0.009
	(0.0080	(0.007)	(0.007)	(0.008)	(0.008)
	[−1.125]	[−1.141]	[−0.802]	[−1.126]	−1.109]
CEORO		0.130***			
		(0.014)			
		[8.987]			
CHRRO			−0.056***		
			(0.019)		
			[−2.900]		
FAMFOND				−0.098**	
				(0.041)	
				[−2.394]	
INSFOND					0.003*
					(0.018)
					[0.141]
R-squared	0.886	0.901	0.886	0.886	0.886
Adjusted R-squared	0.866	0.866	0.866	0.866	0.867
F-statistic	44.674	51.588	44.440	44.422	44.477
Prob(F-statistic)	0.000	0.000	0.000	0.000	0.000
Durbin-Watson stat	1.877	1.877	1.880	1.874	1.877

Notes: All variables are defined in Table 2.
*, **, *** indicate significance at the 0.10, 0.05 and 0.01 level, respectively.
Figures in () indicate standard error values and figure in [] indicate T-values.
Source: Prepared By The Researchers.

With regards to the impact of CEORO and CHRO, the results indicate that CEORO has a significant positive effect ($p < 0.01$) on financial reporting quality; however, CHRO has a statistically significant negative impact on financial reporting quality ($p < 0.01$). This indicates that companies with a CEO royal member have higher levels of financial reporting quality; however, companies with chair royals have lower levels of financial reporting quality. Concerning the impact of FMFOND and INSFOND on financial reporting quality, the results exhibit that family founder has a statistically significant negative effect ($p < 0.01$) on financial reporting quality; however, institutional founder has a statistically significant positive impact on the levels

of financial reporting quality ($p < 0.10$). This means that institutional founders play an essential positive role in financial reporting quality; however, family founders negatively influence financial reporting quality.

5.4. Endogeneity tests

The results in Table 6 provide an estimation of financial reporting quality using an alternative measure bead on Dechow and Dichev (2002) model. In the earlier model of FRQ, working capital, plants and equipment, and revenues scaled by total assets are estimated to measure FRQ. However, in the alternative model, cash flow from operations (CFO) is included in this case with the consideration of the effect of CFO_{it}, CFO_{it-1}, and CFO_{it+1}. The results provide a robust outcome compared to the wizards provided in Table 5 except for the impact of RODIR on FRQ. The results exhibit a significant but negative effect on financial reporting quality. All other variables demonstrate consistent results and same significant effect on financial reporting quality using post measures.

Considering the effect of endogeneity problems, the results in Table 6 provide an estimation of 2SLS regression. To tackle the effect of endogeneity problems, the current study uses the method of instrumental variables (Larcker & Rusticus, 2010). The endogeneity issue may cause a correlation problem between the error term and some explanatory variables. In the first 2SLS model, CEOR has been taken as an instrumental variable to RODIR. The results demonstrate consistent estimation with the results of Model (1) in Tables 5 and 6 except for BGEN, FRDIR, and RODIR. Similarly, in the second 2SLS model, ROCHR has been considered as instrumental variable and the results exhibit a robust estimation with the results of Model (2) in Tables 5 and 6 except for BMET. In the last three models of 2SLS, a dummy variable of 1 for the existence of a royal director and otherwise has been considered an instrumental variable. Further, both family and institutional ownership have been treated as instrumental variables. The results provide consistent outcomes with the earlier models.

5.5. Sensitivity analysis

The results in Table 7 provide OLS regression for 2 AGE clusters. The data has been divided into two sets in which small and large AGE companies have been separated. The first cluster is defined with an AGE of less than 20 years. However, the second cluster is determined based on the AGE of greater than 20. The results of both sets provide a consistent and robust outcome compared to the previous estimations in Tables 5 and 6 except for AGE, FRDIR, and RODIR. The results show that AGE has a significant negative effect on FRQ in the case of small AGE companies; however, this effect is positive in the case of large AGE companies. Further, the results show that FRDIR and RODIR have an insignificant influence on FRQ in the case of small AGE companies; however, this effect is statistically positive and significant in the case of large AGE companies. Overall, the results provide consistent estimation and more meaningful outcomes that are applicable to small and large AGE companies.

Table 6. Additional analysis.

	Alternative measure					2SLS				
Variable	Model (1)	Model (2)	Model (3)	Model (4)	Model (5)	Model (1)	Model (2)	Model (3)	Model (4)	Model (5)
C	0.010	0.010	0.017	0.031	0.041***	0.102***	−0.102***	0.004	0.025**	0.085***
	(0.014)	(0.014)	(0.016)	(0.020)	(0.016)	(0.017)	(0.017)	(0.013)	(0.011)	(0.014)
	[0.675]	[0.681]	[1.087]	[1.516]	[2.529]	[6.155]	[−5.856]	[0.328]	[2.213]	[6.193]
BSIZE	−0.009***	−0.009***	−0.009***	−0.009***	−0.009***	−0.014***	−0.037***	−0.001**	−0.011***	−0.012***
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.005)	(0.002)	(0.002)	(0.002)
	[−4.229]	[−4.461]	[−4.134]	[−4.261]	[−5.298]	[−7.981]	[−7.524]	[−0.072]	[−6.939]	[−4.980]
AGE	0.001**	0.001**	0.001**	0.001**	0.001***	−0.001**	0.008***	0.001**	0.001**	0.000**
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.001)	(0.000)	(0.000)	(0.000)
	[2.637]	[2.687]	[2.666]	[2.513]	[2.528]	[−0.590]	[14.416]	[2.344]	[1.411]	[2.256]
BEXP	0.008***	0.008***	0.008***	0.008***	0.006***	0.007***	0.012**	0.005***	0.005***	0.004**
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.005)	(0.002)	(0.001)	(0.002)
	[3.555]	[3.536]	[3.438]	[3.596]	[3.764]	[3.152]	[2.466]	[3.109]	[4.047]	[2.379]
BMET	−0.005***	−0.006***	−0.005***	−0.005***	−0.005***	−0.009***	0.001	−0.004	−0.006***	−0.007***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.001)	(0.003)	(0.002)	(0.001)	(0.001)
	[−12.088]	[−13.917]	[−12.238]	[−12.483]	[−11.674]	[−7.640]	[0.545]	[−1.513]	[−5.413]	[−6.303]
BGEND	0.009	0.010	0.009	0.009	0.009	0.045***	0.010	0.026***	0.034***	0.039***
	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)	(0.008)	(0.013)	(0.006)	(0.006)	(0.005)
	[1.038]	[1.115]	[1.079]	[1.069]	[1.029]	[5.709]	[0.773]	[4.413]	[6.108]	[8.376]
BIND	0.003**	0.002**	0.003**	0.003**	0.003*	0.002**	0.020***	0.009***	0.003***	0.001***
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.001)	(0.003)	(0.002)	(0.002)	(0.002)
	[1.783]	[1.316]	[1.823]	[1.861]	[1.699]	[1.345]	[7.568]	[4.931]	[0.056]	[0.406]
FRDIR	−0.006	−0.006	−0.005	−0.006	−0.005	0.023***	0.000	0.012***	0.007***	0.012***
	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)	(0.008)	(0.004)	(0.001)	(0.001)	(0.001)
	[−1.088]	[−1.131]	[−0.901]	[−1.078]	[−0.961]	[2.969]	[−0.112]	[11.978]	[5.370]	[10.478]
RODIR	−0.012*	−0.012*	−0.009	−0.012*	−0.011*	−0.013**	0.384*	−0.126**	−0.005**	−0.017*
	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.006)	(0.249)	(0.061)	(0.007)	(0.010)
	[−1.700]	[−1.715]	[−1.244]	[−1.713]	[−1.639]	[−2.092]	[1.544]	[−2.084]	[−0.677]	[−1.639]
CEORO		0.117***					−7.867**			
		(0.014)					(103.212)			
		[8.558]					[0.076]			
CHRRO			−0.039***					0.104**		
			(0.0130					(0.156)		
			− [2.988]					[0.670]		
FAMFOND				−0.095**					−0.063***	
				(0.039)					(0.008)	
				[−2.436]					[7.703]	

(*continued*)

Table 6. Continued.

	Alternative measure					2SLS				
Variable	Model (1)	Model (2)	Model (3)	Model (4)	Model (5)	Model (1)	Model (2)	Model (3)	Model (4)	Model (5)
INSFOND					0.021***					0.057***
					(0.005)					(0.008(
					[4.172]					[6.778]
R-squared	0.884	0.887	0.884	0.884	0.884	0.213	0.115	0.141	0.143	0.159
Adj. R-squared	0.863	0.867	0.863	0.864	0.864	0.208	0.109	0.135	0.137	0.152
F-statistic	43.550	44.708	43.211	43.372	43.580	13.354	69.651	9.611	17.782	21.417
Prob(F-statistic)	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Durbin-Watson	1.911	1.915	1.913	1.909	1.915	0.754	0.488	0.724	0.771	0.763

Notes: All variables are defined in Table 2.
*, **, *** indicate significance at the 0.10, 0.05 and 0.01 level, respectively.
Figures in () indicate standard error values and figure in [] indicate T-values.
Source: Prepared By The Researchers.

Table 7. Sensitivity analysis with AGE clusters.

	Cluster A: Large age companies					Cluster A: Small age companies				
Variable	Model (1)	Model (2)	Model (3)	Model (4)	Model (5)	Model (1)	Model (2)	Model (3)	Model (4)	Model (5)
C	0.140***	0.134***	0.131***	0.134***	0.176***	−0.023*	−0.032**	−0.028*	−0.045**	−0.018
	(0.024)	(0.027)	(0.024)	(0.025)	(0.023)	(0.015)	(0.014)	(0.016)	(0.018)	(0.012)
	[5.800]	[4.973]	[5.478]	[5.484]	[7.771]	[−1.616]	[−2.244]	[−1.744]	[−2.487]	[−1.433]
BSIZE	−0.018***	−0.019***	−0.020***	−0.016***	−0.019***	−0.007***	−0.006***	−0.007***	−0.005***	−0.006***
	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
	[−5.199]	[−6.030]	[−6.930]	[−5.011]	[−5.596]	[−4.184]	[−3.380]	[−4.047]	[−3.382]	[−3.923]
AGE	−0.001*	0.000	−0.001*	−0.001**	−0.001**	0.003**	0.003**	0.003**	0.003**	0.003**
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
	[−1.649]	[−0.443]	[−1.626]	[−1.810]	[−1.814]	[2.255]	[2.527]	[2.265]	[2.319]	[2.372]
BEXP	0.002**	0.001**	0.003**	0.002*	0.001**	0.011***	0.011***	0.012***	0.010***	0.011***
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.002)	(0.002)	(0.002)	(0.002)	(0.001)
	[1.389]	[0.107]	[2.172]	[1.089]	[0.772]	[6.709]	[6.849]	[6.789]	[5.710]	[7.701]
BMET	−0.002	−0.003**	−0.002	−0.003**	−0.004**	−0.010***	−0.009***	−0.010***	−0.009***	−0.010***
	(0.001)	(0.001)	(0.001)	(0.001)	(0.002)	(0.002)	(0.002)	(0.002)	(0.001)	(0.001)
	[−1.354]	[−2.140]	[−1.180]	[−2.246]	[−2.504]	[−6.096]	[−5.852]	[−5.894]	[−6.445]	− [7.214]
BGEND	0.068***	0.053***	0.074***	0.084***	0.070***	0.080***	0.075***	0.075***	0.081***	0.081***
	(0.016)	(0.016)	(0.015)	(0.013)	(0.014)	(0.008)	(0.007)	(0.007)	(0.008)	(0.007)
	[4.361]	[3.305]	[5.053]	[6.243]	[4.916]	[10.146]	[10.090]	[11.414]	[9.894]	[11.539]
BIND	0.006***	0.004***	0.005***	0.005***	0.004***	0.004***	0.004***	0.004***	0.003***	0.004***
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
	[5.335]	[4.274]	[4.714]	[4.089]	[3.633]	[4.012]	[4.032]	[3.911]	[3.095]	[4.244]
FRDIR	0.018	0.018	0.019	0.016	0.021	0.004***	0.003**	0.004***	0.005***	0.004**
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.001)	(0.001)	(0.001)	(0.002)	(0.002)
	[11.232]	[10.488]	[11.223]	[8.937]	[12.105]	[2.926]	[2.242]	[2.879]	[2.947]	[2.727]
RODIR	−0.010**	−0.025	−0.002	−0.013	−0.006**	−0.014***	−0.011***	−0.001	−0.012***	−0.016***
	(0.003)	(0.005)	(0.004)	(0.004)	(0.003)	(0.002)	(0.002)	(0.003)	(0.002)	(0.002)
	[−3.240]	[−4.998]	[−0.565]	[−3.459]	[−1.798]	[−7.445]	[−4.469]	[−0.029]	[−5.771]	[−7.265]
CEORO		−0.157***					−0.219***			
		(0.023)					(0.012)			
		[−6.914]					[−18.920]			
CHRRO			−0.023**					−0.062***		
			(0.010)					(0.008)		
			[−2.226]					[−7.671]		
FAMFOND				−0.036***					−0.029***	
				(0.010)					(0.004)	
				[−3.646]					[−7.843]	

(*continued*)

Table 7. Continued.

	Cluster A: Large age companies					Cluster A: Small age companies				
Variable	Model (1)	Model (2)	Model (3)	Model (4)	Model (5)	Model (1)	Model (2)	Model (3)	Model (4)	Model (5)
INSFOND					0.047***					0.010*
					(0.005)					(0.007)
					[8.949]					[1.500]
R-squared	0.142	0.193	0.148	0.172	0.198	0.133	0.553	0.143	0.122	0.140
Adjusted R-squared	0.131	0.182	0.135	0.160	0.186	0.121	0.546	0.130	0.109	0.127
F-statistic	12.873	16.518	11.944	14.296	16.961	11.870	85.143	11.472	9.552	11.172
Prob(F-statistic)	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Durbin-Watson stat	0.809	0.807	0.816	0.831	0.797	0.768	0.798	0.777	0.747	0.755

Notes: All variables are defined in Table 2.
*, **, *** indicate significance at the 0.10, 0.05 and 0.01 level, respectively.
Figures in () indicate standard error values and figure in [] indicate T-values.
Source: Prepared By The Researchers.

6. Discussion and implications

The results indicated that large board size have less financial reporting quality as compared to companies with small board size. This consists with some prior studies in this regard (e.g., Ahmed & Duellman, 2007; Bradbury et al., 2006; Chalaki et al., 2012). These studies found that there is no relationship between board size and FRQ. Consistently, Lipton and Lorsch (1992) indicate that larger board size may become less effective in the oversight and management function. The results show that board size of the sampled companies ranges between a minimum size of 3 and a maximum size of 17 members with an average of 8 members. Goodstein et al. (1994) suggest that an optimum board size should range between 4 to 6 members for more effective and efficient board functions. While there is no optimum size of board members, some GCC firms have a maximum board size of 17 members. A large board size may produce unfruitful board discussions; however, in some cases, a larger board size may bring diversity to the board, which enhances the board decisions. Some studies indicate that board size should not be larger than ten members in the board (Yermack, 1996). In this regard, GCC companies need to focus on the diversity on the board rather than increasing the board size. A larger board size may bring unfruitful discussions to the board meetings, especially when board diversity, including board independence, expertise, nationality, and gender, are absent. Accordingly, GCC companies need to focus on the qualitative characteristics of the board members rather than the size of the board of directors in order to enhance the effectiveness of the oversight function of the board members. Regulatory bodies, including Capital Markets, should incorporate some regulations and provisions regarding the minimum and maximum size and also relate board size with the size of the companies in order to avoid the appointment of extra members to the board by listed firms. Thus, listed firms in gulf countries have to diverse their board members to be mixed of skilled, highly educated, and experienced board members within the optimal level that would enhance the reporting quality.

The results showed that more excellent board expertise associates with higher levels of financial reporting quality, and companies with a higher number of board expertized members in accounting and finance areas have greater levels of FRQ. In connection with the earlier result, GCC-listed firms have to focus more on hiring board members who are experts in accounting and finance. In other words, at least one of the board members should have an international professional certificate in accounting and finance to enhance the quality of financial reporting. The results also revealed that board meetings negatively and significantly affect financial reporting quality. This result indicates that it is not about how many times board members meet; it is about the results of the meetings and the dissection among the board members. Rohaida (2011) argued that board expertise ensures higher board effectiveness in their respected field. Thus, GCC-listed firms have to reduce the number of meetings, gain more importance, and produce fruitful decisions. This is inconsistent with Lipton and Lorsch (1992), Sarkar et al. (2008), and Chou et al. (2010). They indicated that board diligence and meetings are essential to increase managerial effectiveness. Cai et al. (2009) noted that optimum board diligence associates with higher efficiency and better fiduciary duties and responsibilities towards shareholders.

Companies need to disclose their board meetings along with their meeting agendas. Further, the mode of the meeting should be disclosed especially when the online meetings are held. More provisions in corporate governance codes should be incorporated for better disclosure of board meetings.

Further, the results indicated that a greater number of board independent members setting on the board associates with higher financial reporting quality. This agrees with Bradbury et al. (2006), Koh et al. (2007), and Ahmed and Duellman (2007). They indicate that FRQ is positively and significantly associated with board independence. Further, board expertise ensures higher board effectiveness function (Rohaida, 2011), increases board managerial abilities (García-Meca & García-Sánchez, 2018), makes better decisions (Alzahrani, 2014), and are more able to understand financial reporting issues (Rohaida, 2011). However, this contradicts Onuorah et al. (2016), who found a negative relationship, Petra (2007) reported no association between board independence and financial reporting quality. Board independence was stressed by several international bodies (World Bank and OECD) and reputed committees (Cadbury Report). Lack of monitoring by independent members may lead to earnings management (Akhtaruddin et al., 2009; Brennan & McDermott, 2004; García-Meca & Sánchez-Ballesta, 2010; Lefort & Urzúa, 2008; Onuorah et al., 2016). Several accounting scandals have been reported due to the lack of board independence. Studies report that board independence increase investors' confidence (Akhtaruddin et al., 2009; Chobpichien et al., 2008; Khodadadi et al., 2010). The reason behin this positive impat is atributed to the fact that external board members do not have any commetment to the share holders in order to manebultate the financial results or not to report material information; unlike dependent directors who are responsible on the company success and profitability. Therfore, GCC listed firms has to maintain the number of independetn directors. Further, greater level of board expertise associates with a better financial reporting quality (Rohaida, 2011). Accordingly, more expertise board members are in a higher position to ensure that shareholders' funds are not misused (Johannisson & Huse, 2000). GCC companies need to consider both board independence and expertise in the board composition of their companies. More provisions and regulations regarding board independence and expertise should be incorporated in corporate governance codes. The proportion of board independence should not be less than 50% of the board composition. Further, the majority of the board members should be comprised from expertise board members in the areas of accounting, finance, and management to increase the capacity and the managerial abilities of board members. This is not limited only to the board members, but all other board committees should be comprised of board independent and expertised members to enhance firm value.

The results exhibited that board gender, foreign directors, and royal directors have an insignificant impact on financial reporting quality statistically, indicating that female directors, foreign directors, and royal board members setting in the board did not contribute to the levels of financial reporting quality in the sampled companies. The result behind the insignificant impact of board gender on financial reporting quality is that, in GCC countries, only a few females get into jobs. Thus, in some companies, most board members are males. Regarding royal directors' insignificant

impact on financial reporting quality, it is believed that royal members are nominated only to give signals to investors. Royal members are not much dedicated to work. However, Khasharmeh and Suwaidan (2010) and Kamrava et al. (2016) argue that the number of royal family members engaging in business activities increases. But results of their effectiveness are not yet proven. Thus, GCC-listed firms are advised to attract experienced and qualified board members rather than royal members. In addition, the results declared that companies with a CEO royal member have higher levels of financial reporting quality; however, companies with chair board royals have less financial reporting quality. Wellalage (2012) indicated that better decision-making associates significantly and positively with board diversity. Ogbechie (2012) reported that board diversity significantly impacts board effectiveness as it is the most influential board structural factor. The results also found that institutional founders play a significant positive role in financial reporting quality; however, family founders negatively influence financial reporting quality. Some other studies state that foreign ownership has a positive relationship with financial disclosure (Yasser et al., 2016), enhances their financial reporting quality (Lee et al., 2013), is more timely recognition of economic gains (Bagaeva, 2008), and increases financial statement comparability based on IFRS (DeFond et al., 2011). Lee et al. (2013) revealed that Chinese listed firms with a higher percentage of foreign ownership are expected to improve their financial reporting quality under IFRS-converged Chinese Accounting Standards (CAS). Likewise, Srithanpong (2013) found that foreign ownership has a significant positive impact on the financial reporting quality of Thai companies. Chalaki et al. (2012) found no relationship between the quality of financial reporting and CG mechanisms, including 'board size, board independence, ownership concentration, institutional ownership'. They revealed that there is no relationship between the quality of financial reporting and CG mechanisms such as; 'board size, board independence, ownership concentration, institutional ownership'. Additionally, there is no significant relationship between the quality of financial reporting from one hand and firm size and firm age on the other.

7. Conclusion

The present study focuses on examining the impact of board diversity on financial reporting quality with especial consideration of how family and royal directors influence the financial reporting quality (FRQ) of the GCC listed firms. Board personal attributes, including board expertise, age, gender, and nationality, are investigated along with other board issues such as; board size, meetings, and independence. The present study sample comprises listed firms in the GCC from 2010 up to 2016. The present study utilises data for a sample of 181 listed firms from the GCC which is distributed as 69 firms from KSA, 23 firms from UAE, 13 firms from Qatar, 6 firms from Bahrain and Kuwait each, and 64 firms from Oman. The results revealed that companies with large board size have less financial reporting quality than companies with small board size, and old companies have less financial reporting quality than smaller companies. Further, the results showed that greater board expertise associates with higher levels of financial reporting quality and companies that have higher

number of board expertised members in accounting and finance areas have greater levels of FRQ. The results also revealed that board meetings negatively and significantly affect financial reporting quality.

Furthermore, the results indicated that a greater number of board independent members setting on the board associates with higher financial reporting quality. However, the results exhibited that board gender, foreign directors, and royal directors have an insignificant impact on financial reporting quality statistically, indicating that female directors, foreign directors, and royal board members setting in the board did not contribute to the levels of financial reporting quality in the sampled companies. In addition, the results declared that companies with a CEO royal member have higher levels of financial reporting quality; however, companies with chair board royals have less financial reporting quality. The results also found that institutional founders play a significant positive role in financial reporting quality; however, family founders play a negative influence on financial reporting quality.

The present study has several contributions to the strand literature. It focuses on the GCC firms where there are several developments and reforms in corporate governance (CG) regulations and financial reporting reforms. Further, the results of prior studies in this regard stem from developed countries which may less pertinent for the GCC countries as they have unique institutional settings and regulations. In the same context, the present study focuses on the listed firms in the GCC characterised by a high degree of ownership concentration. Furthermore, this study is supported by the agency theory, the economic theory of network, and memetic isomorphism. The study highlights the role of board diversity on FRQ. The board is a unique oversight mechanism for detecting and correcting fraud in financial statements and enhancing the quality of financial reporting (D'onza & Lamboglia, 2014). Based on agency theory that diversity in the board of directors, a higher proportion of external directors, and board independence enhance better decision-making and leads to innovation in the organisation. In this regard, some characteristics of the board, such as size, independence, level of activity, and diversity, can represent a means to increase the level of control in the work of managers and improve the quality of information. Similarly, the theory of resource dependence supports the diversity of the board of directors. The board of directors' diversity helps the company access future capital and manage emergencies.

On the other hand, the positive accounting theory indicates that the quality of financial reports affects stakeholders, and through this quality, the company sends a positive signal to the market (Ali, 2021). Therefore, this research has valuable implications for investors, board of directors, analysts, academicians, and policymakers. The current study is limited to non-financial firms in the GCC. Moreover, it is limited to data from 2010 up to 2016. Therefore, the researcher may wish to use samples that include all companies listed on all GCC stock exchanges in the future. They may utilise recent data and compare the GCC region with some developed countries in this regard. Another possible stream for future studies includes other variables such as audit committee attributes, earnings management, CEO characteristics, and environmental and social issues.

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ORCID

Faozi A. Almaqtari http://orcid.org/0000-0002-5625-3643
Abdul Aziz Abdul Rahman http://orcid.org/0000-0003-4967-6223
Najib H. S. Farhan http://orcid.org/0000-0003-4919-8575

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