ADHERENCE TO THE 1999 BLUE RIBBON PAYOUT POLICY: EVIDENCE FROM KUWAIT

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ABSTRACT

The objective of this research is to examine the adherence to the 1999 Blue Ribbon Committee (BRC) recommendations and its impact on corporate dividends policy in Kuwait. These recommendations are deemed guidelines for improving the effectiveness of audit committees of shareholding firms. Both descriptive as well as analytical methods have been used to test for such effectiveness. A short questionnaire was distributed to 63 listed firms in Kuwait as well as examining published financial data of Kuwaiti firms with respect to dividend policies during 2007-2012. Results of the multiple regressions and sensitivity analysis indicated that there is no significant evidence on compliance with BRC guidelines when setting dividend policies by Kuwaiti firms, thus hardly any effect audit committees have on such policies.

Key terms: BRC-1999, Audit Committees, Corporate Governance, Dividends, Accounting Policies.

I. INTRODUCTION

Corporate Audit Committees in Kuwait

Kuwait is a developing country that has a well-organized financial market (KSE) with over 202-listed corporations. In the following decades, the Government of Kuwait issued a number of laws to regulate stock-trading activities, culminating in August 1983 with the issuance of an Amiri Decree establishing Kuwait Stock Exchange. All listed corporations were obliged to establish audit committees that enable boards of directors to gain assurance about the quality of financial reporting and audit processes as well as to approve significant accounting policies.

The 1999 Blue Ribbon Committee

The Blue Ribbon Committee (BRC-99) was established by the New York Stock Exchange (NYSE) and the National Association of Securities Dealers (NASD) in 1999 to make recommendations for improving the effectiveness of corporate audit committees (AC). The primary role of the AC is to assume board of directors' responsibility and corporate oversight of the financial reporting process (Smith Committee, 2003). Its recommendations were guidelines for ACs as well as for enforcing corporate governance. For BRC-99, AC's are the ultimate monitor of the financial reporting process. Likewise, the Institute of Chartered Accountants in England and Wales (ICAEW, 2001) describes it as the cornerstone of the public's confidence in corporate governance and financial reporting.

Both BRC-99 and the Smith Committee (2003) made recommendations on the functioning of AC in a number of areas including the composition, independence, size, financial expertise and diligence, which are seen as the cornerstone of the public's confidence in corporate governance (Smith Committee, 2003, 5.1) and (Mangena and Tauringana, 2008). Moreover, it enables boards of directors to achieve their financial and fiduciary responsibilities to shareholders (Bean, 1999) (Abbot *et al*, 2004).

Study Importance

This study is an attempt to explore compliance to corporate governance guidelines as set forth by BRC 99 and subsequently, examining the relationship between ACs effectiveness and the payout policy in Kuwait. To this end, it is of paramount magnitude to conduct an empirical insight into the issue especially after the establishment of the Capital Market Authority in 2010. This issue is also of great significance as the country is going under a crucial and long lasting development plan. It is paramount to examine the effectiveness of Kuwaiti corporations ACs in their oversight of accounting policies implementation and safeguarding shareholders equity.

Most current studies often fail to find statistically significant of ACs effectiveness on corporate governance and dividends payout policy particularly in developing countries. Normally, this effectiveness is measured through compliance tests such as the adherence to professional guidelines or otherwise state regulations of the same mandate.

Significant findings will compel more regulation of the auditing profession in Kuwait and subsequently in other GCC countries. It will certainly assist decision makers at both ministry of commerce as well as CMA in determining suitable resolutions and regulations of business practices while maintain interests of investors and shareholders in the country. This will eventually require all government bodies as well as Kuwait Accounting and Auditing Association (KAAA) to revise Law No. 5/1981 that regulate auditing profession to capture BRC guidelines. Moreover, once these regulations are enforced, it would be of audit firms' interest to intensely comprehend operations of many corporations such as Quasi-public shareholdings, holdings, family owned businesses, Special Purpose Vehicles (SPV co.), and Islamic corporations in order to qualify for internal audit professional services and deliver meaningfully. Overall, immense effort is necessary to have these regulations empowered within a short period. Certainly, this will necessitate conducting further studies extending the present study in order to improve the performance of audit committees as well as to maintain a competent auditing profession in the country.

II. EARLIER STUDIES

Many studies have addressed compliance with audit standards in laying accounting policies though within the classical context of accounting theory (Black, 1976; Gómes, 1996; Fluck, 1998; Myers and Majiuf, 1984; Grossman and Hart, 1980; Jensen, 1986; and Easterbrook, 1984). Adjaoud and Ben-Amar (2010) have found that firms with stronger corporate governance have higher dividend payouts.

Researches examining the relationship between audit committees effectiveness and payout policies are rare, as most previous studies have inspected the effect of different corporate governance aspects on payout policies. Chen and Steiner (1999) employed a nonlinear simultaneous equation to examine how managerial ownership relates to dividend policy and found positive effects, which support the agency conflicts between external stockholders and managers. Similarly, Mancinelli and Ozkan (2006) investigated this relationship using a sample of 139 listed Italian companies and discovered that firms make lower dividend payouts as the voting rights of the largest shareholder increase. Same results were supported by Ramli (2010) in his study on Malaysian corporations, Chen and Dhiensiri (2009) using a sample of firms listed on New Zealand Stock Exchange (NZSE), and Baker (2011) on Indonesian firms. Despite the different determinants, all these sample studies have revealed some consequences on dividends policy that at the end affects firm value.

On the governance side, Sawicki (2009) traced corporate governance practices in five East Asian countries: Hong Kong, Indonesia, Malaysia, Singapore and Thailand, over the period 1994 to 2003, ending with evidence that dividends act as a constructive substitute for other corporate governance mechanisms. García and Sánchez (2009) findings, however, showed that the variation in the results of previous studies on CEO duality and AC independence are caused by sampling error, while the measurement of dependent variables and the corporate governance system moderate the association between earnings management and some corporate governance variables.

Most of the prior studies on the effectiveness of audit committees in governing corporate policies have focused on rather generic parameters of such effectiveness leading to targeted corporate governance. For example, Klein (2002) concluded that an effective audit committee reduces earnings management, Song and Windram (2004) reported lower incidences of adverse rulings by the Financial Reporting Review Panel (FRRP) for companies with effective corporate governance, and Karamanou and Vafeas (2005) determined that companies with effective audit committees are more likely to make management forecasts. Likewise, Mangena and Pike (2005) suggested greater levels of interim disclosures in companies with well-structured ACs. Whilst these studies showed ACs' positive effect on financial reporting, little is known about how this is achieved (Turley and Zaman, 2004).

Lawson and Wang (2011) used the mitigation agency of conflicts between insiders and investors by reducing information asymmetry and concluded that negative association between auditor monitoring and dividend payouts as it appeared robust to several sensitivity analyses. This supports the notion that investors view stronger auditor monitoring as an alternative governance mechanism to dividend payouts. Similar results could be found Cheung and Chan (2004); Subramaniam and Johnson (2006); Eugene and Imhaff (2003); Kieso *et al.*, (2005); Bushman and Smith (2003); Mostaque *et al.*, (2002); KPMG (2003); Dah *et al.*, (2011); Solomon and Solomon (2004); Heuvel *et al.*, (2006); and Pourheydari, (2009).

As for the Arabian environment, very few scholars have attempted to test this relationship. Using a sample of 39 Jordanian industrial companies listed in Amman Stock Exchange, Abu Tapanjeh (2006) have come up with negative results of such effect where only factors related to financials and firm size were significantly correlated with dividends policy. Five years later, Warrad L. *et al.*, (2011) repeated the same study with focus on ownership structure and ended up with results of significant relation between foreign ownership structure and the dividends payout policy through Tobin's Q as well as return on assets (ROA), Tobin's Q: is a ratio comparing the market value of a company's stock with the value of a company's - equity book value. The ratio was developed by James Tobin (Tobin 1969). It is calculated by dividing the market value of a company by the replacement value of the book equity: Tobin's q = (Equity Market Value + Liabilities Book Value)/ (Equity Book Value + Liabilities Book Value), but low significance as to audit committee rulings. Tobin's Q reflects expectations about future earnings and market perceptions. The demand of funds by companies for further investments is represented by a high Tobin's .q value, which should have a negative impact on dividends.

El-Gammel and Showeiry (2012) have examined the effect of corporate governance represented by board of directors and AC on achieving a high quality accounting information in Lebanon. Overall, their results revealed that the characteristics of board of directors and AC could help in achieving a high quality accounting information.

The most revealing study on this issue in the region was of Joshi and Wakil (2004). Even though, the data used in the study is now old, but the study examined the functioning of ACs in Bahrain from the responses of 30 companies listed on the Bahrain stock exchange as well as from questionnaires to audit firms. The study primarily focused on the extent to which companies in Bahrain have been following the standard recommendations and guidelines provided by the blue ribbon committee BRC-99. Results indicated that the establishments of ACs have been slow although most of the companies have been following largely BRC-99 recommendations. However, the concept of independent audit committees is yet to be popularized in Bahrain as they do not report their findings to shareholders, but other functions seem to accord with the BRC-99 recommendations. However, some perceptions of audit firms negate the claims of the companies to comply with BRC-99 recommendations.

In dividend policy decisions, a stock price model P0 Dlfks-g shows the tendency to increase the price of the stock. However, if cash dividends are increased, then less money will be available for reinvestment, the expected future growth rate will be lowered, and this will depress the price of the stock. Thus, changing the dividend policy has opposing effects. The optimal dividend policy for the firm is to balance between currents dividends and future growth that maximizes the price of the stock. Firms usually take into account broad categories of factors, which effect dividends policy such as constraints on dividend payment, investment opportunities, availability and cost of alternative sources of capital, and effects of dividend policy on stock price (Mancinelli and Ozkan 2006). The author is not aware of any further studies conducted in the Arabian region pertinent to this issue.

III. HYPOTHESES

The initial assumption here is that ACs have an impact on corporate governance in terms of supervising the adherence to professional guidelines such as those of BRC-99. BRC-99 made 10 recommendations for improving ACs effectiveness as well as 5 broad guiding principles for AC to follow in devising company-specific policies, including dividend payout. For this independent variable to be tested, some proxies were used in a similar fashion of previous studies (see for example, McHutchison, 2003; Swaicki, 2009. In these studies, several dependents variables were assumed to have an effect on ACs performance such as ACs members, organizational structure, independence, procedures and resources, responsibilities, and financial reporting competency

This study's independent variable is BRC-99 guidelines as related to corporate governance, while dividends policy, ACs organizational structure; independence; membership and procedures; responsibilities, and financial reporting are all dependent variables. Accordingly, the following hypotheses were developed:

H01: There is a relationship between AC organizational structure and firm's dividend payout policy.

H02: There is a relationship between AC independence and firm's dividend payout policy.

H03: There is a relationship between AC membership, procedures and resources and firm's dividend payout policy.

H04: There is a relationship between AC responsibilities and firm's dividend payout policy.

H05: There is a relationship between financial reporting and compliance and firm's dividend payout policy.

Tobin's Q ratios are used for testing these hypotheses as conducted by previous studies (Abu-Tapanjeh, 2006; Warrad *et al.*, 2011).

Variables and Model

In order to build up the model used to test the aforementioned hypotheses, the independent variable BRC-99 guidelines is shortened to (Bg), whereas independent Variables are as follow:

Acs = AC structure
Aci = AC independence
Acm = AC membership
Acp = AC procedures
Acr = AC responsibilities
Fri = Financial reporting of period i.
Dyi = Dividends payout in period i.

Correlation among variables would suggests effective AC's role in enforcing corporate governance particularly when it comes to a sensitive issue such as dividends policy. If however, a change in dividends payout is reported, then supplementary correlation test is conducted. Here, change contains any shift in corporate governance elements as listed in BRC-99 guidelines.

The General Model

Testing for the variables correlation and significance is performed in three steps as follows;

1) Measuring dividends policy of a given corporate during a given period;

$$\boldsymbol{CDi,t = NOIi,t - OCFi,t} \qquad \_\_\_\_\_\_\_\_\_\_\_\_ (1)$$

$CDi,t =$ Corporate dividends of i company during t period,

$NOIi,t$ = Net operating income for i company during t period,

$OCFi,t =$ Net cash flow from operation for i company during t period,

2) Testing for regression analysis (β) for a given period;

$$\frac{\mathbf{CD}\boldsymbol{i,t}}{\boldsymbol{Ait-1}} = \mathbf{a} + \boldsymbol{\beta}\mathbf{1}\left(\frac{\mathbf{1}}{\boldsymbol{Ai,t-1}}\right) + \boldsymbol{\beta}\mathbf{2}\left(\frac{\Delta\mathbf{REV}\boldsymbol{i,t} - \Delta\mathbf{REC}\boldsymbol{i,t}}{\boldsymbol{Ai,t1}}\right) + \boldsymbol{\beta}\mathbf{3}\left(\frac{\mathbf{PPE}\boldsymbol{i,t}}{\boldsymbol{Ai,t-1}}\right) + \boldsymbol{\varepsilon i,t}$$

$$\left(\frac{\varepsilon}{\Delta}\right) + \boldsymbol{\beta}\mathbf{2} - (\boldsymbol{\omega\beta} - \Delta\mathbf{REC}\boldsymbol{i,t})^{+}\boldsymbol{\beta}\mathbf{3}(\mathbf{PPE}\boldsymbol{i,t}) \qquad \_\_\_\_\_\_\_\_\_\_\_\_ (2)$$

CDi,t = Corporate dividends of i company during t period,

α = *Fixed denominator e*quivalent to BRC-99 of i company during t period,

$\Delta REVi,t =$ Change in company i earnings during period t,

$\Delta RECi,t =$ Change in company i receivables during period t,

$PPEi,t$ = company i fixed asset during period t,

$Ai,t-1 =$ company i total assets during the period t;

$\varepsilon i,t =$ Random error;

β = *Beta (the regression)*

$\omega = Omega\ factor\ of\ period\ (i)n,$

3) Multiple Ordinary Least Square (MOLS) regressions:

$$DPc_{i,t} = \pi 1Acs_{k,t} + \pi 2Aci_{k,t} + \pi 3Acm_{k,t} + \pi 4Acp_{k,t} + \pi 5Acr_{k,t} + \pi 6Fr_{k,t} + \pi 7Dy_{k,t} + \pi Tt_i + V_i + \varepsilon i,_t \qquad \_\_\_\_\_\_\_\_\_\_\_\_ (3)$$

Where;

$DPc_{i,t}$ = Dividend policy changes of company t in period I.

$\pi 1Acs_{k,t}$ = π AC structure, company k, in period i.

$\pi 2Aci_{k,t}$ = π AC independence, company k, in period i.

$\pi 3Acm_{k,t}$ = π AC membership, company k, in period i.

$\pi 4Acp_{k,t}$ = π AC procedures, company k, in period i.

$\pi 5Acr_{k,t}$ = π AC responsibilities, company k, in period i.

$\pi 6Fr_{k,t}$ = π Financial reporting of period i, company k, in period i.

$\pi 7Dy_{k,t}$ = π Dividends payout in period i, company k, in period i.

Control Variables:

πTt_i = $\sum^{k=1,}{}_{t=2007\text{-}2012}$ Year Dummy for specific test.

V_i = Company dividends specific coefficient.

$\varepsilon i,_t$ = Error factor.

More explicitly,

$\pi 1$Acsk,t is used to test H01**:** there is a relationship between AC organizational structure and firm’s dividend payout policy;

$\pi 2$Acik,t is used to test H02: there is a relationship between AC independence and firm’s dividend payout policy;

$\pi 2$Acmk,t & $\pi 2$Acpk,t are used to

test H03: there is a relationship between AC membership, procedures and resources and firm’s dividend payout policy;
$\pi 2$acrk,t is used to test H04: there is a relationship between AC responsibilities and firm’s dividend payout policy; frk
$\pi 6$Frk,t is used to test H05: there is a relationship between financial reporting and compliance and firm’s dividend payout policy.

IV. DATA AND SAMPLE

Data related to the dependent variables was collected from published financial reports of listed Kuwaiti companies during 2007-2012, as well as a questionnaire survey that was designed and distributed to the study sample. The sample is randomly selected -10 companies of the main sectors; Banks, financial, real estates, industrial, and services in addition to 13 companies of various selection; Family conglomerate, multinationals, gulf based. Selected companies must have dividend declarations of the least five continuous financial years at Kuwait Stock Exchange (KSE) during 2007-2012.

Short questionnaires were delivered by hand to key personnel at the sample companies’ headquarters and were picked up later on. Nine companies did not attest to this criterion and reveal full cooperation, which were replaced by other companies of similar criteria. This sort of personally administered approach was most appropriate for this research, as postal questionnaires are unproductive method in Kuwait where people ignore it, let alone the inefficiency of Kuwait post. It was a crucial step to establish a key person in each company, through friends, relatives, and business relationships in order to be able to get access, meet, and explain the survey to key persons. The questionnaire was pre-tested by pilot study conducted with a random sample of ten firms to refine and clear the final questionnaire to minimize the risk of misunderstanding the questionnaire and ensuring its appropriateness.

Answers to the questions were put on a likert scale format of five points contained in six sections and covering letter. The first section was general information, while the second, third, and fourth sections were on the audit committee organizational structure; independence; procedures and resources respectively as deliberated in BRC-99. The fifth section was audit committee responsibilities as comprehended by respondents, while the sixth section was allotted for financial reporting and compliance test.

Similar to all previous studies a Crombach Alpha test was employed to examine the internal reliability of the questionnaire, as it is the recommended test when questionnaires are designed from a set of questions (Lawson and Wang 2011). Table (1) summarizes the results of Crombach Alpha test and have shown that internal reliability for each domain and for all the questions of the audit committee effectiveness was higher than the reference value which is (0.68) (De Vaus, 2002). Therefore, this data is reliable and valid for statistical analysis. Further, Several Corporate Governance models were found at the sixty three (63) sample firms.

Descriptive analysis

Collected data was subject to several descriptive statistical techniques such as means and standard deviations. Results for each variable of the audit committee effectiveness are shown in table (2).

Most of respondents indicated that the organizational structure of their AC meet the requirements of BRC-99 and subsequently fulfill corporate governance. This variable was ranked

TABLES

Table (1)

Cronbach Alpha for internal domain of the audit committee effectiveness and reliability as per each dependent factor.

Cronbach Alpha	Numbers of items	Domain
0.700	3	Organization
0.798	8	Independent
0.876	11	Procedure
0.954	25	Responsibility
0.956	16	Complaisance
0.953	**63**	**Total**

Table (2)

Means and SD for each domain of audit committee's effectiveness.

Skewness	%	SD	Mean	Domain
0.4	69.6	0.73	3.48	Organizational structure
1.2	37.6	1.09	1.88	Independency
0.0	65.0	1.27	3.25	Procedures
0.5	66.6	0.64	3.33	Responsibilities
0.1	65.6	0.70	3.28	Complaisance
0.2	60.8	0.62	3.04	Total

as the highest by respondents with 3.48 mean, and 0.73 as a standard deviation. All other variables, except the independency, were also ranked as applicable domains by the majority of respondents with (3.33), (3.28) and (3.25) means respectively. Respondents pointed out that audit committees accomplished their responsibilities and their mandatory procedures were in accordance with international regulations. However, no reference was given to the possibility of these committees following BRC-99, nor confirmation was provided as whether such BRC-99 guidelines are set forth in the corporate audit policy. Few of the respondents confirmed their full awareness of AC role in setting dividends policy, but they signified that financial report is reviewed and assessed by the AC before it is published. On the other hand, most of the respondents provided negative indicators toward independency of AC members, as this variable was ranked as the weakest among AC effectiveness domains with a mean of 1.88 and standard deviation of 1.09.

V. REGRESSION ANALYSIS

The second step of data analysis is to explore the effect of AC effectiveness on Kuwaiti corporations' dividends policy as measured by two variables, TOBIN'S Q and ROA through simple linear regressions of the five dependents variables. Tables (3) and (4) revealed the results of linear regressions between AC effectiveness factors with TOBIN'S Q and ROA.

There is no large difference in mean values nor noticeable dispersion of the five dependents variables. Hence, the effectiveness of ACs is more linked to other variables than those under study, which is worth investigating in further research. AC ought to be independent and have free hand in the auditing management adherence to governance rulings and corporate policies. Ranked in terms of vitality, respondents positioned AC scope of work firstly followed by authority delegated to AC, and finally resources available to AC. The organizational structure variable has shown the highest results, which supports the notion that Kuwaiti companies significantly considered the formation and structure of ACs.

Although these results hinted no significant effect on Tobin' s Q or ROA, yet they contradict with results of both Abu Tabanja (2006) and Warrad *et al.,* (2011) but consistent with results of Lawson and Wang (2011) and Baker (2011). Perhaps this is credited to dividends payout theories, which demonstrate that dividends policies cannot be attributed to a single factor. It surely relied on many variables such companies' performance, economy situations, and manager's strategies.

Such contradiction and similarity in results could be attributed to determined variables and to the corporate cultural of businesses in every country. Some studies has examined the effect of other corporate governance parameters on dividends payout policy such as board of directors and different ownership structure whereas the focus in this study

Table (3)

Simpler linear regression between audits committees' effectiveness factors and dividend policy represented by TOBIN'S Q.

Sig (t)	T	Sig (f)	F Value	R2	R	Dividend policy (Tobin's Q)
0.300	1.04	0.300	1.09	0.020	0.141	Organization
0.488	0.69	0.488	0.48	0.009	0.095	Independent
0.505	0.67	0.505	0.45	0.008	0.091	Procedure
0.749	0.322	0.749	0.10	0.002	0.044	Responsibility
0.992	0.009	0.992	0.00	0.000	0.001	Complaisance

Table (4)

Simple linear regression between audits committees' effectiveness factors and dividend policy represented by ROA.

Sig (t)	T	Sig (f)	F Value	R2	r	Dividend policy (Tobin's Q)
0.117	1.59	0.117	2.54	0.045	0.212	Organization
0.709	0.37	0.709	0.14	0.003	0.051	Independent
0.243	1.18	0.243	0.243	1.39	0.159	Procedure
0.572	0.56	0.572	0.32	0.006	0.077	Responsibility
0.797	0.25	0.797	0.06	0.001	0.035	Complaisance

on ACs role in enforcing corporate governance including setting dividend policy. In addition, most of previous researches have relied on either published data or surveys, whereas this study has relied on both methods, which helped in conducting comparisons and ensuring data validity.

Albeit respondents have ranked variables contributing to effective AC as the organizational structure, responsibilities, procedures, and finally monitoring financial performance respectively, however the average mean for each of these four components does not exceed (3.48). AC independency is perceived the least effective as it had the lowest mean (1.88). These results are partially attributed to the inadequate awareness of ACs role and their impact in decision making. In a matter of fact ACs in Kuwait are formed as a response to Kuwait Stocks Exchange regulations and further the Capital Market Authority (CMA) enforcements, which forced all listed corporations to have ACs to monitor companies' management and ensure full enforcement of corporate governance. However, results showed that performance of these committees is moderate due to some hidden restrictions on their power as well as to their fragile mandate. Moreover, members of these ACs are somehow related to the chairman, board of directors, and the management of corporations, which is seen as normal practice since corporate ownership in Kuwait is not fully distinguished from family owned businesses.

Accordingly, it is clear that Kuwaiti corporations concentrate heavily on the legal aspects of AC such as structure, procedures and instructions but they ignore the substance and mandate of these committees. AC role is to monitor management policies in order to protect shareholders' interest especially small investors. Yet, this would never realize as long as AC members are not completely independents.

The second step of the analysis was linear regression, which indicated no relationships between any of these components and the study's variables as revealed by TOBIN'Q and ROA ratios. AC structure has shown the highest relationship despite of its insignificancy, which supported the previous discussion, that Kuwaiti corporation's emphasis on legal requirements rather than material substance of ACs.

Multiple Ordinary Least Square Regression – MOLS-

The purpose of this test is to ascertain factors associated with dividend policy variations are managed away from ACs ruling. MOLS test is considered the most robust model, since it has the least potential to suffer from estimation or measurement error. They also measure variations in accounting numbers from period to period responding to any changes in dividends policy (Farook *et al.*, 2012). Further models of measurement could likewise be used on specific parameters (i.e., return on equity and asset spread) which is considered to be much more volatile, but the analysis here is essentially centered on what governs dividend policy. Table 5 provides Multiple Ordinary Least Square Regressions (MOLS) of dependent variables.

Missing values for each variable were excluded pair-wise, thereby maximizing the sample size. A total of 315 observations were available for the tests (63 company reports for subsequent 5 years). All tests were proved for significant collinearity by reviewing both the variance inflation factor for each variable and the hide values. The adjusted R-square for the regression models range from normal 0.293 to adjusted 0.250, which was the main criterion for selecting it as the key proxy measure in hypotheses testing.

Ho1 predicts that there is a negative relationship between AC organizational structure and firm's dividend payout policy, based on the rule that less conformity with BRC-99 in terms of AC structure result in less effect. AS perceived, p-values of this variable is insignificant (0.000) at a level of 0.01 which imply the hypothesis rejection on the contrary to previous studies Cheung and Chan, 2004; Subramaniam and Johnson, 2006; Eugene and Imhaff, 2003; Kieso *et al.*, 2005; and El-Gammel and Showeiry, 2012. This is attributed to differences in cultural and business environments of each study alongside with the general awareness of governing corporate policies based on professional releases. In addition, the proxy for AC structure is likely to be miss-understood or ill taken by respondents. Diffusion in the existence of or the optimal placing of the AC within the organizational structure is highly probable particularly if we realize that such practice is not given proper weight by board of directors in the region.

On the other hand, a positive association between AC independence and firm's dividend payout policy is observed- p-value 0.047 at 0.05 at the 5% confidence level. According Ho2 is accepted indicating the importance of AC independence for better corporate governance, which comes in conformity with most of previous studies. The third hypothesis (H03) relates the propensity of AC membership, procedures and resources to corporation's dividend payout policy. Clearly, an increased AC involvement in the financial planning

Table (5)

Multiple Ordinary Least Square Regression Analysis

Dependents Variables	Predict Sign	*Variables Variations*		
		Coef.	*t*-Stat	*p*-Value
π1Acsk,t	-	0.105	3.923	0.000***
π2Acik,t	-	-0.001	−1.995	0.047**
π3Acmk,t	-	0.004	3.328	0.001***
π4Acpk,t	-	-0.030	−2.361	0.019**
π5Acrk,t	-	0.000	−0.306	0.760
π6Frk,t	+	0.016	2.040	0.043**
π7Dyk,t	+	-0.30	−3.420	0.001***
T		0.000	−0.605	0.546***
V		−0.001	−2.192	0.030**
Constant		0.485	0.549	0.584
Observations	315			
R-Squared	0.293			
Adjusted R-Squared	0.250			
S.E.	0.018			
F-Value	6.744			
Sig. F (P-Value)	0.000			

Missing values are excluded pair wise.
*Significant at a level of 0.10
**Significant at a level of 0.05
***Significant at a level of 0.01

will lead to a decreased need to perform more control on corporate policies. Since AC will be able to play a more diversified role within the financial system of a corporation, few auditing procedures will be needed on how to expose the financial performance of the corporation. Contrary to this prediction, the coefficient for this involvement is significantly positive at the 5% level. However, the magnitude of the relationship is very small at approximately 0.1% (p-value 0.001). This result could potentially be attributed to the specification issues related to the dependent variable. In particular, it could be argued that ACs local members are relatively less competent with the developed financial systems where BRC-99 guidelines were generated. After all, the bulk of issues related corporate governance was originally generated in western economies then exported to the rest of the world.

Correspondingly, the fourth hypothesis (H04) relates to the propensity of AC responsibilities and firm's dividend payout policy. Predictions were placed on more AC responsibilities and share in policy making which would eventually resulted in better corporate governance. Eventually, responsibilities that are more concentrated provide more leeway for ACs to perform as elevated. Consistent with this prediction, a significant negative relationship is found between ACs levels of responsibilities and dividends policymaking (coef. -0.030., and t-stat −2.361).

Finally, the fifth hypothesis (Ho5) predicts that the propensity to mitigate a relationship between financial reporting and corporation's dividend payout policy with AC BRC-99compliance. Unquestionably, profit distributions will be inversely related to the economic growth of a company. Since ACs will be under more pressure by board of directors to manage profits in recessionary years because of greater write-downs of asset portfolios. Yet, no significant result is found in this respect (Dy coef. -0.30, t-stat −3.420, and p-value 0.001), despite the high significance value of financial reporting with AC compliance with BRC-99 (p-value 0.043 at a 0.5 confidence level). Once more, this showed that ACs have little contribution in deciding dividends policies in Kuwait, since their role is kept within the verification function and that procedures are fulfilled as per commercial laws and legislative requirements.

In summary, some significant results were found to support the hypotheses that AC has effect on corporate policy-making in Kuwait once perform independently and according to clear-cut responsibilities. However, ACs' effects on the financial planning of these corporations are yet to be materialized. This provides some support for a number of the literature hypotheses when professional conduct is involved in ACs scope of work.

Sensitivity analyses

Sensitivity tests were conducted on split samples and the raw values for further verification among variations (Table 6). The original test considers the absolute value of AC variables, since the objective of the study is to measure the determinants of variation in dividends policy, and not necessarily positive and negative variations. Hence, the positive and negative values might provide differing relationships between dividends policy and its proposed determinants. The first test (positive) considers only the positive values culminating a relatively higher R-squared of 0.426 (original test: 0.293). Results remain largely similar, with the AC independence variable dropping in significance but retaining their directional relationship with dividends policy governance.

The second test (negative) considers only negative values and yields an

R-squared of 0.287 as it is the case in most of remaining variables, except for AC responsibilities. Most of the variables dropped in significance, while AC independence variable lost complete significance. This demonstrates that the model has more predictive power for positive rather than negative correlations. The final test (Raw Values) considered raw values for other dependent variables. The model has lost the majority of significant relationships at all levels of confidence, but these results are likely to have resulted from noise generated in the calculation of the raw dependent variable.

Literature has to capture the growing phenomenon of corporate governance, a discretionary ACs conduct that has evolved in the last 15 years. Results signified that none of the tested variables of AC effectiveness showed substantial effect on dividends payout policies in Kuwait measured by both TOBINS Q and ROA. Clearly, dividends payout policies in Kuwaiti corporations are resolved based on parameters not quite related to corporate governance nor to the AC effectiveness. Enhancing ACs independency is surely a core stone in improving their role in corporate

Table (6)

Split Sample Test

Dependents Variables	Predict Sign	*Original Values*		*Positive*		*Negative*		*Raw Values*	
		Coef *(t-Stat)*	Sig	Coef *(t-Stat)*	Sig	Coef *(t-Stat)*	Sig	Coef *(t-Stat)*	Sig
π1Acsk,t	-	0.105 (3.923)	***	0.157 (3.195)	***	0.084 (2.175)	*	0.019 (0.508)	
π2Acik,t	-	-0.001 (-1.995)	**	-0.001 (-1.425)		0.000 (-0.081)		0.000 (0.275)	
π3Acmk,t	-	0.004 (3.328)	***	0.007 (2.748)	***	0.004 (1.938)	*	0.001 (0.727)	
π4Acpk,t	+	0.030 (-2.361)	**	-0.058 (2.443)	**	-0.037 (-1.768)	*	-0.008 (0.437)	
π5Acrk,t	+	0.000 (-.306)		0.000 (0.343)		0.000 (0.039)		0.000 (1.134)	
π6Frk,t	+	0.016 (2.040)	**	0.018 (1.277)	***	0.001 (0.090)		0.023 2.121	**
π7Dyk,t	+	-.0030 (3.420)	***	-0.049 (-2.791)	***	-0.033 (-2.202)	**	0.025 (2.037)	**
T		0.000 (-.605)	***	(1.914) -0.002		-0.001 (-0.771)	**	-0.001 (-0.822)	
V		-0.001 (-2.192)	**	-0.002 (-2.830)	***	0.000 (-0.181)		-0.002 (-3.457)	**
Constant		0.485 (0.549)		2.994 1.593		1.274 (0.757)		0.954 (0769)	
Observations	315			75		121		312	
R-Squared	0.293			0.426		0.287		0.187	

Missing values are excluded pair wise.
*Significant at a level of 0.10
**Significant at a level of 0.05
***Significant at a level of 0.01

governance. There is a need for a more robust organizational setup for these ACs, which shall leads to recognized efficiency and material adherence to professional releases. This should not undermine other characteristics of ACs effectiveness such as size, scope of work, structure, and responsibility as underlined in BRC-99. By default, this would tune-up the quality of accounting information and the full adherence to corporate governance, which will eventually, leads to better disclosure by Kuwaiti corporations.

Overall, corporate governance in Kuwait is getting momentum in later years especially with the raising number of scandals related to the doubtful transparent financial disclosure. Controlling management behavior in shareholdings is surely requires great professional discipline as well as tight public enforcement of auditing practices. In order to combine these elements into a practical formula, one would have to come up with miracles. It seems that this is an urgent responsibility on part of all concerned with auditing and accounting in Kuwait. This paper findings point out to rather poor influence ACs have on corporate accounting policies and in enforcing corporate governance in global form. Beside the alarming indications this has on business environment in Kuwait, it also trigger reliability queries of financial statements as the prudentially of financial decision-making. It its best case, respondents have given low significance of AC's in applying BRC guidelines nor any other directives that lead to better corporate governance. They are attributing the weak symptom of corporate governance to the supreme power top management implies to all including to ACs that are supposed to perform independently. It certainly initiate the importance of further studies of this phenomenon by government and professional agencies to secure a competent business community.

VI. CONCLUSION

BRC-99 guidelines and similar professional releases provided ACs the capability to govern corporations' policies and ensure its consistency with international conducts. The evidence gathered in this study suggests that ACs may potentially contribute in governing dividends policies of corporations in Kuwait once ACs are truly recognized as independent and bestowed complete responsibilities as stipulated in professional releases. The most significant factors associated with ACs effectiveness on dividends policy are AC independence, responsibilities, and role in the financial planning. These results have potential implications for regulators in Kuwait and the region at large to expedite the complete adherence to governing rules such as BRC-99 and alike. If decision makers are sincere enough to enforce corporate governance, then certainly active and effective ACs is the preceding step in this direction. Such conclusion, however, has to be mitigated by the fact that results do not indicate causality events or conditions of ill regulation. Although this study is limited to some variables of ACs effectiveness on dividends policy, yet the findings gave insight into the size of this dilemma in Kuwait, as most respondents discounted the role of ACs. Indeed, it supports international standard of compliance that local corporations are obliged to comply with to attain full accountability and governance. It adds value to local business environment and hardens the fragile financial sector presently at the country.

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