How Corporate Governance Influence on Firms Performance：An Evidence of Oil and Gas Sector Listed in KSE-100

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Abstract

The purpose of this paper to examines the impact of corporate governance on firm's performance for listed companies of KSE regarding Oil and Gas Sector. In this paper we analyzed the corporate governance such as board size, board independence and block holders on firm performance (ROE, ROA, Tobin's Q, Firm Size, leverage, growth and dividend per share). It covers the study for the period of 2010-2014 with 09 listed companies of Oil and Gas in KSE using linear regression analysis. The empirical findings shows a ROA, ROE, FS and DPR are significant effect with corporate governance and also positive association between board size and firm's performance. The research has been limited to some selected oil and gas sector companies focus on the comparison of corporate governance 2002 and 2012. This paper suggests the reforms of corporate governance in Pakistan companies or firms especially in board independence and block holders should be promoted to the other sectors.

Keywords: Corporate Governance, Oil and Gas Sectors, Karachi Stock Exchange

1.0 Introduction

Corporate governance is playing a vital role in the Pakistan where the entire sector gives the fair results to the SECP. Corporate sector includes public limited, private limited and SME firms in Pakistan they specially focus on the corporate governance. Central bank monitored and controls the monetary policy in Pakistan because they maintain the rules and regulation and guided the information to the commercial banks. Securities Exchange of Pakistan and State bank of Pakistan are the main institution where they regulate or implement the policies which are given by the government of Pakistan. The government of Pakistan gave the guidelines through SECP to the companies or firms whether public or private limited in which they give the good results through good governance.

In corporate governance 2002 establishing for the reason of all companies such as public or private firms managed the compliances of good practices and managed the powers through the SECP and after that some modification in the ordinance revised in 2012.Good governance always give the tremendous results to the investors through the good policies by the block holders (Goergen, Manjon and Renneboog, 2005). All investors whether international or national they want only protections of their own lives especially in Pakistan where they invest in the different sectors.

According to (Randal K, Mork and Lloydsteir, 2005) that the goods governance always motivates to the investors to invest in stock prices of the companies. In Pakistan good governance is very strictly needed in the different sectors because of the protection of the interest of the block holders and also this code is mentioned in corporate governance ordinance 2002 and 2012.Investor want to invest their public or private companies in which they only want to get the good returns. Corporate Governance ameliorates with the initiation Corporate Governance Ordinance in 2002. There is very short task to analyze the relationship between corporate governance and their stake holder depiction in the Pakistan. Cheema (2003) establish only the essence of corporate possession fabric in Pakistan necessitate delve into influence on corporate performance.

The oil and gas sectors are an important part of the financial economy of the country like Pakistan because of its financial purposes. They give to the protection of the financial policy any their interest whereas they also connected to the other part of the countries. Their contribution is much important in the financial decision and also the development of the country.

According to (Shaheen and Nishat, 2005) that firms who's their do not fair governance they cannot generate the good output. In Pakistan if different firms want to get good profit they need to be create good governance if they can't they get loss of the firms or can't participate in the economy of the country. In generally, different parts of the country they focus in the good governance because they know if governance is good then investor is invest in the different sector but it creates the employment this directly focus on the economy of the country. In Pakistan oil and gas sector is participate in the part of the economy they want to work with the government as well as the different part of the investors because they know about the limit.

2.0 Research Problem

The study problem is to examine the impact of Corporate Governance on Firm's Performance. The main research question is how firm performance is affected by corporate governance especially in oil and gas sector in the Pakistan.

2.1 Research Objective:

The research objective is to determine / identify the impact of Corporate Governance on firm's performance in Oil and Gas Sector.

2.2 Research Scope:

This research will focus particularly on Oil and Gas Sector which is listed in KSE-100 through 2010-2014 and they focus on the previous researches with the verification of corporate governance on firm's performance.

3.0 Literature Review:

A literature review of the following characteristics covered to corporate governance such as board size, board independence and block holders.

1) Board Size and Firm Performance:

Large numbers of researchers detect a pessimistic relationship between board size and performance of fims(Yermack, 1996; Eisenberg et al., 1998).In additional, this researchers are focus on the board size of different firms how they generate the performance of firms with different thinkers in the board of directors, they actually responsible for the running business of the firms but they are managed and supervised as well.

According to (Lipton and Lorsch (1992) assert that at least eight or nine directors should be at optimum level in a board size. This argument supports in our research report because pessimistic association on firms performance. Our research consist of 45 observations over the period of 2010–2014 and find out the impact of Board Size in Oil and gas sector that board size is significant effect on firms performance but the negative sign shows that the size of the board is much higher than the research point of view.

2) Board Independence and Firm Performance:

Directors of the firm whether in the firm or outside the firm they are the part of the board composition, these are changing from different firms to another. According to (Ghosh, 2006; Adams &Mehran, 2003) that outside director always improve the efficiency of the firm. Outside director is always better than the inside director because they can't follow the policies of the organization they always betterment of the firm of the employees.

According to (Agrawal&Chadha, 2005; Abor and Biekpe, 2007) that firms performance and non-executive directors has a positive relationship to each other. This relationship is mainly depending upon the board independence and effectiveness of the productivity whereas in which independence is there that should be effectiveness should be exist.

Our research consist of 45 observations over the period of 2010–2014 and find out the impact of Board independence in Oil and gas sector that board independence is significant effect on firms performance and as well as positive sign shows that the board independence is exist in this sector because of the research point of view.

3) Block holders and Firm Performance:

Block holders are the shareholders who participate in every managerial decisions in the firm whether these decisions are correct or not but they are part of the every decisions. According to (Mak and Kusnadi 2005) assert that firms performance and block holders have positive association to each other, however these relationship is very strong from the firms productivity point of view.

Moreover, firms are getting the profit and this influence on performance through block holders (Haniffa and Hudaib 2006) however this positive impact on both such as block holders and firms performance. In additional, if productivity increases of the firm that directly impact on the equity holders i.e. are the main owners of the firm, and also they are accountable for everything in which when link to the firm.

According to (Omran, Bolbol and Fatheldin 2008) that the optimistic association among the firms influence and block holders. Our research consist of 45 observations over the period of 2010–2014 and find out the impact of Block holders in Oil and gas sector that block holder is significant effect on firms performance and also positive sign shows that the block holders are true decision maker of any firm from the research point of view.

4.0 METHODOLOGY:

1) Hypothesis

The following hypothesis have been developed on the basis of above discussion

H1: Corporate governance significant influence on ROE

H2: Corporate governance significant influence on ROA

H3: Corporate governance insignificant influence on TQ

H4: Corporate governance insignificant influence on GRTH

H5: Corporate governance significant influence on FS

H6: Corporate governance significant influence on DPR

H7: Corporate governance insignificant influence on LEV

2)   Data Collection Method:

Secondary data is gathered from the Balance Sheet Analysis, Report of SBP of Joint stock companies listed of Oil and Gas on Karachi Stock Exchange, and annual reports of the listed companies of Oil and Gas sector.

3)   Model Specification:

The models used to test the hypothesis

To test the research hypotheses the following five models will be used:

$ROE = \beta_0 + \beta_1 (BI) + \beta_2 (BS) + \beta_3 (BH) + \varepsilon$ ....(1).

$ROA = \beta_0 + \beta_1 (BI) + \beta_2 (BS) + \beta_3 (BH) + \varepsilon$..(2).

$TQ = \beta_0 + \beta_1 (BI) + \beta_2 (BS) + \beta_3 (BH) + \varepsilon$...(3).

$GRTH = \beta_0 + \beta_1 (BI) + \beta_2 (BS) + \beta_3 (BH) + \varepsilon$ ....(4).

$FS = \beta_0 + \beta_1 (BI) + \beta_2 (BS) + \beta_3 (BH) + \varepsilon$ ....(5).

$DPR = \beta_0 + \beta_1 (BI) + \beta_2 (BS) + \beta_3 (BH) + \varepsilon$ ....(6).

$LEV = \beta_0 + \beta_1 (BI) + \beta_2 (BS) + \beta_3 (BH) + \varepsilon$ ....(7).

4)   Research Variables

Dependent Variables

ROE: Return on Equity of the Oil and Gas Sectors

ROA: Return on Assets of the Oil and Gas Sectors

TQ: Tobin's Q of the Oil and Gas Sectors

FS: Firm Size of the Oil and Gas Sectors

LEV: Leverage of the Oil and gas Sectors

GRTH: Growth of Oil and Gas Sector

DPR: Dividend Payout Ratio of Oil and Gas Sector

Independent Variable

BI: Board Independence of the Oil and Gas Sectors

BS: Board Size of the Oil and Gas Sectors

BH: Block Holder of the Oil and Gas Sectors

ε : The error term.

β_0: Cons

5.0)   Results and Discussion with Analysis:

Table-01.Multiple Regressions.

V	C	S. Er	t-St	Pr.
C	29.49456	4.900125	6.019143	0.0000
BI	11.24285	9.374508	1.199301	0.2373
BS	-21.49319	6.840955	-3.141840	0.0031
BH	261.9655	97.83256	2.677693	0.0106
R^2	0.242626	M.D.V		21.43622
Adj. R^2	0.187208	S.D.D.V		14.61297
S.E.O.R	13.17432	A.I.C		8.079103
S^2-res	7116.068	S.C		8.239695
Log lik-li	-177.7798	H-Q.C		8.138970
F-stat.	4.378130	D-W.S		1.208515
Prob(F-stat.)	0.009187			

Analysis:

ROE dependents on BI, BS and BH or other 24.26% fluctuation of ROE can be explained by three variables such as BI, BS and BH. These independent variables can influence 24.26% only on ROE and rest of percentage fluctuation on ROE can be explained by other variables which are included in this regression model.

Therefore, the coefficients of the research model will be as the following equation:

ROE = 29.494 +11.242*BI-21.493*BS+261.965*BH + ε

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Table-02.Multiple Regressions

V	C	S. Er	t-St	Pr.
C	9.024364	2.868868	3.145619	0.0031
BI	26.30818	5.488476	4.793348	0.0000
BS	-8.654428	4.005162	-2.160819	0.0366
BH	86.11588	57.27785	1.503476	0.1404
R^2	0.384042	M.D.V		10.99422
Adj. R^2	0.338972	S.D.D.V		9.486835
S.E.O.R	7.713144	A.I.C		7.008416
S^2-res	2439.196	S.C		7.169008
Log lik-li	-153.6894	H-Q.C		7.068283
F-stat.	8.520981	D-W.S		0.577728
Prob(F-stat.)	0.000162			

Analysis:

ROA dependents on BI, BS and BH or other 38.40% fluctuation of ROE can be explained by three variables such as BI, BS and BH. These independent variables can influence 38.40% only on ROA and rest of percentage fluctuation on ROA can be explained by other variables which are included in this regression model.

Therefore, the coefficients of the research model will be as the following equation:

ROA = 9.024 +26.308*BI-8.654*BS+86.115*BH + ε

Table-03.Multiple Regressions.

V	C	S. Er	t-St	Pr.
C	-0.019626	1.980443	-0.009910	0.9921
BI	2.363522	3.788818	0.623815	0.5362
BS	2.934440	2.764853	1.061337	0.2947
BH	-5.089664	39.54018	-0.128721	0.8982
R^2	0.039868	M.D.V		2.324984
Adj. R^2	-0.030385	S.D.D.V		5.245459
S.E.O.R	5.324556	A.I.C		6.267223
S^2-res	1162.387	S.C		6.427815
Log lik-li	-137.0125	H-Q.C		6.327090
F-stat.	0.567489	D-W.S		0.061194
Prob(F-stat.)	0.639574			

Analysis:

TQ dependents on BI, BS and BH or other 3.98% fluctuation of TQ can be explained by three variables such as BI, BS and BH. These independent variables can influence 3.98% only on TQ and rest of percentage fluctuation on TQ can be explained by other variables which are included in this regression model.

Therefore, the coefficients of the research model will be as the following equation:

TQ = -.019 +2.363*BI+2.934*BS-5.089*BH + ε

Table-04.Multiple Regressions.

V	C	S. Er	t-St	Pr.
C	20.29506	5.207761	3.897079	0.0004
BI	-5.804394	9.963051	-0.582592	0.5634
BS	-4.271813	7.270439	-0.587559	0.5601
BH	157.0966	103.9746	1.510913	0.1385
R^2	0.074250	M.D.V		17.66067
Adj. R^2	0.006512	S.D.D.V		14.04723
S.E.O.R	14.00142	A.I.C		8.200882
S^2-res	8037.627	S.C		8.361474
Log lik-li	-180.5198	H-Q.C		8.260749
F-stat.	1.096142	D-W.S		2.251166
Prob(F-stat.)	0.361640			

Analysis:

GRTH dependents on BI, BS and BH or other 7.42% fluctuation of GRTH can be explained by three variables such as BI, BS and BH. These independent variables can influence 7.42% only on GRTH and rest of percentage fluctuation on GRTH can be explained by other variables which are included in this regression model.

Therefore, the coefficients of the research model will be as the following equation:

GRTH = 20.295 -5.804*BI-4.271*BS+157.096*BH + ε

Table-05.Multiple Regressions

V	C	S. Er	t-St	Pr.
C	8.224941	0.118680	69.30371	0.0000
BI	0.480286	0.227048	2.115350	0.0405
BS	-0.539326	0.165686	-3.255111	0.0023
BH	-5.841770	2.369477	-2.465426	0.0180
R^2	0.434362	M.D.V		7.958667
Adj. R^2	0.392974	S.D.D.V		0.409537
S.E.O.R	0.319078	A.I.C		0.637927
S^2-res	4.174248	S.C		0.798519
Log lik-li	-10.35335	H-Q.C		0.697794
F-stat.	10.49485	D-W.S		0.734975
Prob(F-stat.)	0.000030			

Analysis:

FS dependents on BI, BS and BH or other 43.43% fluctuation of FS can be explained by three variables such as BI, BS and BH. These independent variables can influence 43.43% only on FS and rest of percentage fluctuation on FS can be explained by other variables which are included in this regression model.

Therefore, the coefficients of the research model will be as the following equation:

FS = 8.224 +.480*BI-.539*BS-5.841*BH + ε

Table-06.Multiple Regressions.

V	C	S. Er	t-St	Pr.
C	33.12698	9.266956	3.574742	0.0009
BI	36.62618	17.72876	2.065919	0.0452
BS	-19.83903	12.93739	-1.533465	0.1328
BH	611.2333	185.0177	3.303648	0.0020
R^2	0.237030	M.D.V		35.55156
Adj. R^2	0.181203	S.D.D.V		27.53404
S.E.O.R	24.91484	A.I.C		9.353491
S^2-res	25450.71	S.C		9.514083
Log lik-li	-206.4536	H-Q.C		9.413358
F-stat.	4.245797	D-W.S		0.872034
Prob(F-stat.)	0.010580			

Analysis:

DPR dependents on BI, BS and BH or other 23.70% fluctuation of DPR can be explained by three variables such as BI, BS and BH. These independent variables can influence 23.70% only on DPR and rest of percentage fluctuation on DPR can be explained by other variables which are included in this regression model.

Therefore, the coefficients of the research model will be as the following equation:

DPR = 33.126 +36.626*BI-19.839*BS+611.233*BH + ε

Table-07.Multiple Regressions.

V	C	S. Er	t-St	Pr.
C	8.551691	3.262952	2.620845	0.0122
BI	1.834784	6.242404	0.293923	0.7703
BS	-0.525289	4.555334	-0.115313	0.9088
BH	-105.3514	65.14586	-1.617161	0.1135
R^2	0.079832	M.D.V		7.722667
Adj. R^2	0.012503	S.D.D.V		8.828026
S.E.O.R	8.772665	A.I.C		7.265846
S^2-res	3155.346	S.C		7.426438
Log lik-li	-159.4815	H-Q.C		7.325713
F-stat.	1.185696	D-W.S		0.206803
Prob(F-stat.)	0.327033			

Analysis:

LEV dependents on BI, BS and BH or other 7.98% fluctuation of LEV can be explained by three variables such as BI, BS and BH. These independent variables can influence 7.98% only on LEV and rest of percentage fluctuation on LEV can be explained by other variables which are included in this regression model.

Therefore, the coefficients of the research model will be as the following equation:

LEV = 8.551 +1.834*BI-0.525*BS-105.351*BH + ε

Descriptive Statistics:

	ROE	ROA	TQ	GRTH	FS	DPR	LEV	BI	BS	BH
Mean	2012	21.436	10.994	2.3249	17.660	7.9586	35.551	7.7226	0.2475	0.6154
Median	2012	26.69	6.63	0.5013	17.05	7.8	38.24	1.4	0.25	0.7
Max	2014	38.91	29.29	20.52	55.87	8.7	73.88	26.18	0.8	0.94
Min	2010	-33.72	-4.64	0.1438	-9.48	7.31	-80.22	0	0	0
SD	1.430	14.612	9.4868	5.2454	14.047	0.4095	27.534	8.8280	0.2190	0.3073
Skewness	2.06E	-1.6058	0.5042	2.5728	0.2028	0.3660	-1.3938	0.8377	0.8686	-0.8823
Kurtosis	1.7	6.4260	1.9469	7.8626	2.8121	1.7297	8.0424	2.3238	3.0647	2.4154
Jarq-Bera	3.168	41.3492	3.98582	93.9798	0.37466	4.03002	62.2459	6.12056	5.66652	6.47919
Prob.	0.205	0	0.1362	0	0.8291	0.1333	0	0.0468	0.0588	0.039
Sum	9054	964.63	494.74	104.62	794.73	358.14	1599.8	347.52	11.138	27.695
S.Sq.Dev.	90	9395.7	3960.0	1210.6	8682.2	7.3797	33357	3429.0	2.1107	4.1552
Obs	45	45	45	45	45	45	45	45	45	45

Analysis:

These samples are taken for 5 years from 2010-2014 for descriptive statistics to know about the position of the variables exist. In ROE average mean is 2012 but minimum is 2010 and maximum is 2014 so that increases whereas all variables are increases from lowest value to maximum value.

In standard deviation LEV is deviate 27.53 is compare to other variables that means leverage is increased is compare to rest of all variables. In Jarque-Bera ROE is 3.16, ROA is 41.34, TQ is 3.98 and LEV is 62.24.

Correlation Results:

	ROE	ROA	TQ	GRTH	FS	DPR	LEV	BI	BS	BH
ROE	1	-0.13063	0.02986	-0.03018	-0.10408	-0.0485	-0.16821	-0.04421	0.06870	-0.03956
ROA	-0.13063	1	0.71707	-0.4696	0.31310	0.27802	0.60513	0.34485	0.06059	-0.32352
TQ	0.02986	0.71707	1	-0.35204	0.111132	0.39952	0.55382	0.61442	0.55057	-0.19336
GRT	-0.03018	-0.4696	-0.35204	1	-0.1462	-0.28373	-0.26117	-0.267	0.110725	0.169491
FS	-0.10408	0.313107	0.111132	-0.1462	1	-0.22012	0.19736	0.001813	-0.14991	-0.02152
DPR	-0.0485	0.278022	0.39952	-0.28373	-0.22012	1	-0.11808	0.272861	0.310627	-0.49051
LEV	-0.16821	0.605134	0.553825	-0.26117	0.19736	-0.11808	1	0.301969	0.17192	-0.05885
BI	-0.04421	0.344853	0.614426	-0.267	0.001813	0.272861	0.301969	1	0.103956	-0.09719
BS	0.068708	0.06059	0.550575	0.110725	-0.14991	0.310627	0.17192	0.103956	1	0.042008
BH	-0.03956	-0.32352	-0.19336	0.169491	-0.02152	-0.49051	-0.05885	-0.09719	0.042008	1

Analysis

In ROE is weakly correlated with changes in the BS and TQ whereas negative correlation with rest of all variables and vice versa.

In ROA is strongly correlated with changes in LEV and TQ whereas negative correlation with ROE, GRTH and BH and vice versa.

In TQ is strongly correlated with changes in ROA, LEV, BI and BS whereas negative correlation with GRTH and BH and vice versa.

In GRTH is weakly correlated with changes in BS and BH whereas negative correlation with rest of all variables and vice versa.

In FS is weakly correlated with changes in TQ, LEV and BI whereas negative correlation with other variables and vice versa.

In DPR is weakly correlated with changes in ROA, BI and BS whereas negative correlation with other variables and vice versa

In BI is strongly correlated with changes in TQ whereas negative correlation with ROE, GRTH and BH and vice versa.

In BS is strongly correlated with changes in TQ whereas negative correlation with FS and vice versa.

In BH is weakly correlated with changes in the BS and GRTH whereas negative correlation with rest of all variables and vice versa.

6) Conclusion

Now day corporate governance is play a significant role in the corporate sectors because good governance is the heart of the economy if it goes than good result achieved in the future. We using the normal sample of oil and gas sector which is listed in KSE-100 from the year of 2010-2014 for five years i.e. in above results that ROA, ROE, DPR and FS is significant impact on corporate governance but other variables such as TQ, GRTH and LEV is insignificant impact on corporate governance above mentioned relating on hypothesis made however this regression model is good fitted on oil and gas sector.

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