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Effects of Board of Directors on Firm Performance: A Study on KSE Firms

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Abstract
This paper investigates the impact of number of independent directors, split role of independent directors, board meeting and female directors on firm performance in KSE. The study measure the ROA on firm performance. Because agency theory suggests that companies with better corporate governance standards perform better. The study proposes that better governed KSE firms would have greater performance and higher valuation. The study finds that our composite measure of corporate governance is positively and significantly associated with firm performance and valuation. These findings have implications for policy makers, researchers, managers, and investors in general and those in emerging markets in particular.
Keywords: Independent directors, split role, board meeting, female directors, ROA

1. Introduction

1.1 Independent Directors

Board freedom implies that the extent of autonomous independent directors in respect to the aggregate number of executives. (John and Senbet 1998) specified that sheets of executives are more autonomous as the extent of their outsider director's increments. Since the directorate is the most essential gadget to screen the administration, independency of board individuals turn into a huge issue (Nahar Abdullah 2004). The examination (Fauziah, Khairunnisa et al. 2009) contended that sheets with the more independent directors will control the conduct of administrators and secure the shareholders interest.

(Dehaene, De Vuyst et al. 2001) and the examination of (Dahya and McConnell 2003) found a huge positive relationship between the proportion of independent directors and ROE among Belgian organizations. Besides, (Baysinger and Butler 1985) and Rosenstein and (Rosenstein and Wyatt 1990), (Brickley, Coles et al. 1994) locate the same results that positive connection between the extent of outsider directors and the share trading system response to toxic substance pill appropriations. Be that as it may, (Hermalin and Weisbach 1991) discover no relationship between board creation and execution (utilizing Tobin's Q as the execution measure).

Then again, (Agrawal and Knoeber 1996) study the interrelationships among seven corporate administration systems and locate a negative relationship between board autonomy and firm execution (as measured by Tobin's Q). All studies like, (Bhagat and Black 2002), (Bhagat and Bolton 2008) additionally express that organizations with more autonomous individuals don't perform better, utilizing diverse execution measures.

H1: There is a relationship between Independent Directors and Firm performance.

1.2 Split Role of Directors

(Brickley, Coles et al. 1997) study 661 U.S. firms in the 1989 Forbes remuneration study and find that organizations with independent authority don't perform better. Undoubtedly, they infer that duality firms are connected with better bookkeeping execution.

(Krause and Semadeni 2013) study three sorts of bundle: understudy (the past Manager seat surrenders the President title yet holds the COB title), flight (firms supplant the President seat with two unmistakable people), and minimization (firms strip the President seat of the COB title). They watch that each of the three sorts of package upgrade future firm execution if current execution is poor, paying little heed to the way that the restrictive impact is just certainly key for student and scale down divisions.

Arguments regarding the costs and benefits of dual leadership

The disputes against twofold organization (or for discrete activity) are by and large in perspective of the workplace speculation. Presidents of current associations have decision rights yet not control rights over shareholder capital. Consequently, Presidents have conflicting leisure activities and don't for the most part act to increase shareholder regard. The overseeing body is the summit of the decision control course of action of front line corporations, which mitigates association issues as a result of the unit of ownership and control (Fama and Jensen 1983). Having director lead this decision controls hierarchy of leadership likely deals the sufficiency of the control structure and epitomizes a conclusive beyond reconciliation circumstance. Since picking up and transmitting firm-specific information can be over the top, twofold activity potentially acknowledges considerable cost reserves by wiping out information trading and get ready costs associated with non-Boss overseers.

Concrete control in like manner gives clarity as to the activity and direction of the firm, which progresses practical overseeing external social events (Dalton, Daily et al. 1998). (Dahya, Dimitrov et al. 2009) test whether firm execution enhanced after the division. They neglect to discover any execution change. Subsequent to finishing a meta-investigation of 31 studies, (Dalton, Daily et al. 1998) infer that directors duality does not influence execution and firm size does not direct the duality–performance connection. Upon isolated audits of the writing, (Dalton and Dalton 2011) and (Krause, Semadeni et al. 2014) reason that the writing needs confirmation of a substantive connection between firm execution and the board administration structure.
H2: There is a relationship between split role of directors and Firm performance.

1.3 Board Meeting

The relationship between board meeting and firm performance is not clear. In any case, there are costs associated with burden up social affairs, including authoritative time, travel expenses, and board meeting charges. There are also points of interest, including more open door for boss to present, set methodology, and screen organization. If associations have less official social events than are basic, overemphasizing costs, official meeting repeat will be distinctly associated with firm regard. Evidence in this bearing would recommend that extending meeting repeat is one really unobtrusive way for firms to construct regard. If, by separation, points of interest are overemphasized, official meeting repeat will be conversely related with firm image. Finally, if a firm is sensibly viable in setting the repeat of its official social affairs, dependent upon its surroundings, it will accomplish economies in office costs. For such a value boosting firm, the net effect of a negligible change in official meeting repeat on firm performance should be close to zero. In total, the relationship between board activity and firm performance is a definite demand.
H3: There is a relationship between board meeting and Firm performance.

1.4 Female Directors

These days' researchers are focusing on the board gender differences issue. The female directors' vicinity has expanded numerous folds in the substantial firms. Sadly the same couldn't be reflected in the official sheets. Then again their vicinity on directorate is connected with negative firm administration and execution. There has been significantly a study on the issue these days and numerous nations like United States and European Union require exposure in board enlistment and there has been a portion in Norway. Despite the fact that there has been substantially more accentuation on the issue there has been less proof of the female directors effect on firm execution.

1.5 Female Directors and Firm Performance

(Nakagawa and Schreiber 2014) suggested that a firm would see enhanced money related execution by expanding the extent of ladies administrators, past studies on the issue, in Japan and somewhere else, have demonstrated different results. (Post and Byron 2014) Nevertheless a substantial group of writing inspecting the relationship between ladies on sheets and firm budgetary execution, the proof is mixed. To accommodate the clashing results, the study factually consolidated the outcomes from 140 studies and look at whether these outcomes fluctuate by firms' lawful/administrative and socio-social connections. Study find that female board representation is emphatically identified with accounting returns and that this relationship is more positive in nations with more grounded shareholder securities maybe in light of the fact that shareholder insurances propel sheets to utilize the diverse information, experience, and values that every part brings. study additionally find that, despite the fact that the relationship between female board representation and business sector execution is close to zero the relationship is sure in nations with more prominent gender equality (and negative in nations with low gender equality).

(Leung, Richardson et al. 2014) analysed whether the relationship between corporate board and board council independence and firm execution is directed by the centralization of family proprietorship. Taking into account a specimen of Hong Kong firms, the study found no critical relationship between the autonomy of corporate sheets or board advisory groups and firm execution in family firms, while board freedom is absolutely connected with firm execution in non-family firms. Moreover, studies on discoveries demonstrate that the extent of independent executives on the corporate sheets of family firms is lower than that of non-family firms; however study found no huge distinction in the representation of independent directors on the key advisory groups of corporate sheets in the middle of family and non-family firms. By and large, these outcomes propose that the "one size fits all" methodology required by the administrative powers for delegating independent directors on corporate sheets may not as a matter of course improves firm execution, particularly for family firms. (Gupta and Sharma 2014) considered that Corporate Administration is expected to make a corporate society of perception, straightforwardness and openness. It empowers an organization to boost the long haul estimation.

(Saravia 2013) studied on that firm lifecycle hypothesis the office expenses of free money streams are not passing issues but rather are a tireless issue for full grown firms. The study amplifies the hypothesis by proposing that to kill the risk of takeover the controlling gatherings of developing firms logically convey antitakeover procurements, and this permits them to overinvest securely and avert conservation. Observational results demonstrate that as firms develop free money streams expand, more antitakeover procurements are established and negative net present quality activities are attempted.

(Cohen, Gaynor et al. 2014) concentrated on that regardless of regulations that command that review advisory groups must be financially autonomous, the directors might even now impact review council individuals through earlier associations with the President from either social ties (e.g., fitting in with the same nation club) or expert ties (e.g., having cooperated or served on sheets together).

H4: There is a relationship between female directors and Firm performance.

3. RESEARCH METHODOLOGY

3.1 Sample Selection

The current study's sample comprises of 92 companies listed on KS from years 2009 and 2014 and excluded financial firms as they differ in structure, methods and accounting practices from the sample (Barontini and Caprio 2006); (Bøhren and Strøm 2010). Data on independent directors, split role of directors, board meetings and female directors other corporate governance variables were manually collected from the annual reports of sample firms.

3.2 Measurement of Key Variables

The firm performance was measured by market based measurement of ROA. It is a forward looking measurement reflecting the shareholder expectations regarding future performance of the firm, which is based on past or current performance (Ganguli and Agrawal 2009); (Shan and McIver 2011); (Bear, Rahman et al. 2010; Wahla, Maheshwari et al. 2012; Bruynseels and Cardinaels 2013).

3.3 Regression Models

Model

$ROA = \alpha 0 + \gamma 1*NUMID + \gamma 2*SR + \gamma 3*BRD + \gamma 4*FMD$

Robustness check model

$ROE = \alpha 0 + \gamma 1*NUMID + \gamma 2*SR + \gamma 3*BRD + \gamma 4*FMD$

Where,

$\alpha 0$ = Error term

NUMID = Number of Independent Directors

SR = Split Role

BRD = Board Meeting

FMD = Female Directors

ROA = Return on Asset

ROE= Return on Equity

4. EMPERICAL RESULTS

4.1. Descriptive Statistic

The table 1 depicts the descriptive statistics for the independent and dependent variables. The sample size is 552 firms. The average ROA is 0.0309 with the standard deviation 0.1350. The average number of independent directors is 5.1358 and standard deviation is 1.9894. The average split role of the sample size is 0.7210 with standard deviation of 0.4489. The average of board meetings is 5.3496 with the standard deviation of 2.2414. The average of female directors is 0.8949 with the standard deviation 1.2168.

4.2. Correlation Matrix

The results show that there is negative relationship between ROA and number of independent directors. On the contrary there is positive relationship between ROA and split role. The results of board meeting and female directors depict negative relationship with the ROA.

4.3 Regression Results

The regression results show that there is significant negative affect among number of independent directors, board meetings and female directors on return on assets at 5% level of significance because p value is less than 0.05. The results depict significant positive impact of split role of directors and return on assets. Thus our findings support our hypothesis H1, H2, H3 and H4. Our findings are in line with earlier studies.

Robustness checks

Robustness checks are performed to evaluate whether our main results change if an alternative performance measure is used. We use the return on equity (ROE) as the performance measures in place of ROA in the main tests. The results for ROE are similar to those of ROA.

5. CONCLUSION

The paper is an attempt to examine the relationship of corporate governance to firm performance of firms listed on KSE. Our results on the composite measure of corporate governance show that overall quality of corporate governance has a significantly association with firm performance. Since we required our sample firms to have data available for all identified provisions, we dropped almost two-thirds of the firms due to missing data. Thus to the extent our final sample is not a perfect representative of the whole population of publicly listed firms on KSE. Future studies need to test more data.

Our findings have implications for policy makers, regulators, managers, investors and researchers in the emerging markets of Pakistan. Our evidence on the association between corporate governance factors and firm performance should help policy makers and regulators develop new policies to establish a competitive legal and regulatory infrastructure to attract foreign capital. New regulations should continue to promote corporate governance for the listed firms. In addition, our findings have implications for the managers of public companies. Managers and board of directors of listed firms should adopt high standards of corporate governance. The results of the study provide evidence to investors in Pakistani firms that corporate governance is related to company-specific performance and value. Since this study suggests better governed firms perform better, investors should be aware of the corporate governance metrics of the firms in Pakistan in which they are considering investment.

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Table 1
Descriptive Statistics of All Variables

Variable	Obs	Mean	Std. Dev.	Min	Max
roa	552	.03095	.1350909	-1.2071	.7836
numind	552	5.13587	1.98945	0	14
sr	552	.7210145	.4489072	0	1
brd	552	5.349638	2.241143	2	19
fmd	552	.8949275	1.21687	0	5

Table 2
1.2. Correlation Matrix

	roa	numind	sr	brd	fmd
roa	1.0000				
numind	-0.0259	1.0000			
sr	0.3098	0.2053	1.0000		
brd	-0.0509	0.0845	0.0491	1.0000	
fmd	-0.0829	-0.0560	-0.1016	-0.0223	1.0000

4.3. Regression results
Table 3

roa	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
numind	-.0039554	.0010229	-3.87	0.000	-.0059603	-.0019506
sr	.0562633	.0050491	11.14	0.000	.0463672	.0661593
brd	-.0024287	.0009005	-2.70	0.007	-.0041937	-.0006637
fmd	-.0129747	.0012298	-10.55	0.000	-.0153852	-.0105643
_cons	.0385812	.0086036	4.48	0.000	.0217184	.0554441