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Corporate Governance Attributes and Firm Value: Evidence from Pakistan

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Abstract
A sound corporate governance mechanism is associated with significant and positive effect on firm's value, increasing productivity and earnings, decreasing systematic risks and easier access to capital. This paper aims to examine the difference in quality of firm level governance characteristics and its impact on firm performance for companies listed at Karachi Stock Exchange during the years from 2010 to 2013. Empirical analysis was made between firm's value as measured by Tobins Q and Corporate Governance characteristics: Board Size, Board Members, CEO Duality and Audit Committee independence. The results indicate that there is a relationship between corporate governance attributes and firm performance in Pakistan. Members on the Board can add to companies' activities by ensuring proper implementation of policies. We found positive significant relationship between Audit Committee Independence and firm performance. CEO duality does affect firm performance but its value is not significant. We could not find significant relationship between board independence and firm performance. Presence of female directors and family directors on the board affects firm performance negatively.
Keywords: Corporate Governance, Firm Performance, Tobins Q, Pakistan, Female Director

1. Introduction

Sound corporate governance mechanisms help a company in acquisition of capital both from individual and institutional investors. Various studies relate the positive and significant effect of effective corporate governance to the firms' values, their productivity and decreasing systematic risk. Especially for the emerging economies, good corporate governance environment serves as tool for the government to achieve many public policy goals. For example first, a good corporate governance environment ensures smooth flow of information to stake holders. This smother information flow decreases the probability of financial crisis and results in stability in the economy. Secondly, absence of well-developed corporate governance structure increase information acquisition cost and consequently translates into higher cost of capital. On the contrary, sound corporate governance structure improve disclosure environment that reduces information acquisition cost for investors resulting in lower cost of capital and capital market development.

One of the most important aspects of corporate governance is the board directors. It consists of group of people who are assigned the duty to take long term decisions about the future of the company. Board of directors is responsible for policy decisions, strategic planning and monitoring of managerial actions for achievement of overall objectives of the firm. This power held by the board, highlights the importance of understanding how decisions are made at the board level and whether board characteristics play a role in decision making for achievement of objectives of the firm. In recent years, the discussion has focused on the characteristics and structure of the board of directors, the most important governance mechanism of the internal control systems (Jensen, 1993).

After the major corporate collapses in the United States, regulators have felt the need to strengthen the corporate governance environment and have introduced Sarbanes Oxley Act in the year 2002. In the wave of this trembling international financial and economic scenario and introduction of new laws and regulation in order to improve corporate governance system, Securities and Exchange Commission of Pakistan (SECP) introduced Corporate Governance Code in 2002 and issued a revised version in 2012. Both corporate governance codes encourage the membership of non-executive and independent directors on the board. Introduction of these codes of corporate governance has attracted interest of many researchers to directors' characteristics, corporate governance mechanisms and their effect on the overall firm performance.

It is also a well-known fact that whenever regulatory authorities take some measures to restrict a behavior of individual, then opposite parties also find some loop holes in the laws and regulation in order to continue their previous practices, such as Fama and Jensen (1983) suggested inclusion of more independent directors on the board in order to improve governance in the firm. In order to counter that, some Chief Executive Officers (CEOs) who are dominant and have more influence over recruitment division of the company, then mostly appoint the directors who in past and present are working in line with the interest of CEOs in other firms (Zajac and Westphal, 1996). Other Chief executive officer can try different techniques like appointing a director who is well known to them and has some liked interest with them. This kind of behavior undermines the quality of corporate governance as it damages quality of directors selection processes (Kuhnen, 2009), decisions relating to appointment and firing

of CEO and financial decisions (Güner et al., 2008).

Talking at broad level, corporate governance indicates composition of all institution surrounding the business environment in the country, including the legal institutions, regulatory authorities, financial and capital markets and the enforcement mechanisms of these institutions. The basic premise for the need for effective corporate governance lies in the assumption that interests and objectives of managers (insiders) and external shareholders are not similar Berle and Gardiner (1968) and Jensen and Meckling (1976).

This study is aimed at finding out the role played by corporate governance in determining the firm value for sample companies listed on Karachi Stock Exchange (KSE). Most of the company's ownership structure in Pakistan is highly concentrated as many companies are owned by influential families. This can be observed from the study of Javid and Iqbal (2010) in which they conducted an analysis of ownership concentration of fifty random companies from 2003 to 2007; they found that average percentage of ownership by top three and top five shareholders is more than 50%. So, the corporate governance problem in Pakistan is between majority and minority shareholders. The basic methods to resolve the conflict of interest between majority and minority shareholders are legal framework which guards rights of minority shareholders, active corporate governance board members which continuously keep an eye on management's action and well-functioning of markets to adjust the irregularities in the market. On the contrary to well developed economies, usually in under developed or in emerging economies, control and efficiency of market relies in the hands of majority and controlling shareholders (such as family) and institutional investors rather than depending on capital market and external shareholders. In this kind of situation, external (minority) investors are always at the risk of being expropriated by majority shareholders.

Majority of the companies in Pakistan are controlled by business groups, government and affiliates of multinational companies. Business groups usually consists of apparently independents companies which are governed by a family holding majority of shares. Key positions in the management structure are filled by the choice of those controlling family and usually they appoint one of immediate or distant members of family. In this way, family controls all the business entities in group, (Gani and Ashraf, 2005).

In Pakistan, pyramids ownership structures are also prominent. The corporate structure of Pakistan is mainly composed of concentrated family ownership, cross shareholdings, interlocking directorships and pyramid structure. This kind of ownership structure enables families to control many companies even with smaller cash flow rights. The companies which are controlled by families, affiliates of multinational firms and government usually are pledged with less objectivity in financial statements and undermined corporate governance system (Gani and Ashraf, 2005). As a result, investor usually discount the value of those firms with higher rates considering the fact that controlling owners are at ease to exploit the rights of minority shareholders.

The corporate governance mechanism has also become an area of interest in the field of corporate and business research. A positive growing corporate governance behavior in firms can play an important role in attracting foreign direct investment and mobilizing greater saving towards capital market. The corporate governance policies in Pakistan is based upon two factors; protection of minority shareholders and profit maximization incentives for family controllers. Some areas related to corporate governance and its effect on firm valuation are yet to be discovered. This study is an attempt to make contribution towards literature and finding the effects of corporate governance on firm valuation in Pakistan.

The remainder of the paper is structured as follows. Section 2 discusses the relevant literature and presents the hypotheses of our paper. Research methodology is discussed in section 3, while empirical results are presented in section 4. Section 5 concludes the paper and provides directions for future research.

2. Literature Review and Hypothesis Development

2.1 Corporate governance and firm value

A lot of research work is being carried on the impact of corporate governance on business performance of firms for developed economies. There have been many studies conducted to test the relationship between corporate governance and firm value. Many empirical studies focus on the impact of various corporate governance policies in cross section of countries. Some of prominent studies include work by Mitton (2002) with the sample of 398 firms from Korea, Malaysia, Philippines, Indonesia, and Thailand and the results indicate that differences in firm's corporate governance has significant impact on East Asian firms during crises of 1997-1998. The results suggest that firms with better stock performance have higher outside ownership concentration, higher disclosure quality and are focused rather than diversified firms. The studies of Shleifer and Vishny (1997), John and Senbet (1998), Adams et al. (2008) provide us with good literature review, making it an important field of research specially in developing economies.

Much of empirical work for finding the relationship between corporate governance and firm value is based on single jurisdiction. Brown and Caylor (2004) measure the broad corporate governance Gov-score with 51 factors, 8 sub-categories for 2327 US firms based on the dataset of Institutional Shareholder Service (ISS). The result indicates that firms with better governance are relatively more profitable and distribute more dividends among shareholders. Gompers et al. (2001) use data from Investor Responsibility Research Centre (IRRC) and

found that firms with less shareholder rights have lower valuation and stock returns. They grouped 24 governance factors into different groups: voting rights, director protection, state laws, delaying hostile takeover and other takeover defenses. The finding reveals that firms with stronger shareholder rights have higher profits, higher firm values, higher sales growth, lower cost of capital and rare corporate acquisition.

Ammann et al. (2011) in their study using large sample of 22 developed countries for the years fro, 2003 to 2007 found that there is positive significant impact on firm value and relation also remains the same even when they used alternative measure of corporate governance in order to consider the value relevance of corporate governance attributes. Gupta and Sharma (2014) conducted their study on two prominent countries of Asia namely India and South Korea using sample of five top companies from each country for the period of 2005-06 to 2012-13 and found that corporate governance of company only defines a small proportion of firm performance, therefore other factors affecting corporate governance should be considered as well while conducting research on firm performance. Balasubramanian et al. (2010) in their study on Indian public companies using survey method with sample of 318 firms found that corporate governance has statistically significant positive impact on firm value. They also found that strength of this relationship is dependent on profitability and growth opportunity held by the firm. More the growth opportunities and profitability, stronger will be the relationship between corporate governance and firm value. Corporate governance is important factor to improve decision making process as good corporate governance smooth the information flow, making financial statements more transparent and improving quality of investment decisions which ultimately improves the value of the firms. Good corporate governance can also force the internal management and controlling shareholders to work in the interest of all, rather than working only in their own interest (Andreou et al., 2014). Furthermore, Sami et al. (2011) using the composite measure of corporate governance on sample of Chinese listed companies confirmed that better corporate governance is positively related to performance and valuation for the firms in China.

2.2 Board size

There is mixed evidence in the literature on the relationship between board size and firm value. Some studies show that limiting board size improves performance because there are communication gaps and problems regarding decision making processes in larger boards. Lipton and Lorsch (1992) and Jensen (1993). However, Yermack (1996) gave inverse relationship between smaller board size and profitability. Anderson et al. (2004) shows that cost of capital is lower for larger boards and creditors view the enterprises as having more effective monitoring of financial statements. Brown and Caylor (2004) find that firms between 6 and 15 board members have higher profit margin and return on equity. According to recourse dependence theory, larger boards that has connections to external environment increases the ability of organization to access more recourses and this results in capturing more growth opportunities and ultimately enhances organization's performance. In line with resource dependency theory, Pfeffer and Salancik (1978) argue that organizations which requires more external links for better performance, board size of those organizations should be bigger. Further, Van et al. (2004) argued that as compared to smaller board size, increasing the members of governing board brought more diversity, ideas, intellect and experiences in corporate decision making process. Corporate governance board is backbone of a firm because members of that board are responsible for and in charge of all the decision making of the firm. Therefore, a well-functioning board is very much important for survival and success of organization. Lipton and Lorsch (1992) suggest that bigger board size is harmful for the company's performance because it creates opportunities for some of the board members to take credit of the efforts actually put by others. Given the mixed arguments and empirical findings, we hypothesize that;

H1: *There is a significant relation between board size and performance of listed firms in Pakistan*.

2.3 Characteristics of Board members

The main role of external directors (independent and non-executive directors) is to contribute objectively in decision making of firm and independently evaluate the company's performance. On the other hand, executive directors (insiders) are directly involved in the operations of company therefore they have greater and firsthand information as compared to outsiders. Previous literature exhibits the mixed results about the outside directors such as Rosenstein & Wyatt (1990) found that relationship between adding outside (independent and non-executive) directors on corporate value is direct and significant with share price. On the contrary Ehikioya (2009) found that outside directors on a board has a negative influence on firm performance as measured by return on assets and price-earnings ratio. On the other hand Mashayekhi & Bazaz (2008) and Jackling & Johl (2009) discovered that having outside (independent and non-executive) directors on board has direct relationship with organization performance.

Fosberg (1989) find no significant relation between the proportion of outside directors and performance of firms. On the other hand Baysinger and Butler (1985), Rosenstein and Wyatt (1990) show that firms get marketing rewards for appointing outside directors. Brickley et al. (1994) find a positive relation between the proportion of outside directors and stock market reactions. Anderson et al. (2004) show that cost of debt and board

independence is inversely related to each other. Studies based on financial statements and Tobin's Q find no relation between firms performance and board independence, however studies find a positive relation by using stock returns data. Hermalin and Weisbach (1991) , Brown and Caylor (2004), Bhagat and Black (2001), were unable to find Tobin's Q to increase in board independence. However they show that firms with independent directors have higher profit margins, higher return on equity, higher stock purchases and higher dividend yield, suggesting that board independence do affect firm performance. Based on literature available we hypothesize that:
H2A: There is a significant positive relationship between proportion of external (independent and non-executive) directors on board and performance of listed firms in Pakistan.
In Pakistan, ownership is highly concentrated and is characterized by influential family ownership and several key management positions are also filled by the family members. Family firms have also pyramid structure ownership in the form of business groups. Like other Asian markets, agency problem exists between majority and minority shareholders. Wiwattanakantang (2001) analyzed the data of 270 non-financial listed firms in Thailand. He found that ownership concentration is positively associated with accounting-based measures of performance (i.e. return on assets and sales-assets ratio). Moreover, he observed that family-controlled and foreign-controlled firms as well as firms with more than one controlling shareholders have higher return on assets relative to firms with no controlling shareholders. Anderson and Reeb (2003) argued that family ownership in listed firms operating in well-regulated and transparent markets reduces agency costs. On the other hand, (Faccio et al., 2001)) claim that politically powerful families in control of public firms have been able to expropriate minority shareholders in East Asia where transparency is low. Given the mixed empirical findings, we hypothesize that;
H2B: There is a significant relationship between proportion of family directors on the board and firm performance in Pakistan.
Furthermore, research suggests that diversity is increasing especially by gender. For example, Daily et al. (1999) in his study on Fortune 500 firms, indicates that women have made significant progress in terms of assuming seats on boards of directors, but not in terms of taking CEO positions. Bilimoria (2000) reports that even though the number of female board members is increasing slightly, few companies actively recruit females and there is still gender bias, stereotyping and tokenism on boards where women serve. Mattis (2000) concludes that women board members are increasing in numbers but the changes are small and incremental. In addition, Smith et al. (2006) intricate that woman director may better understand particular market conditions than men, which may bring more creativity and quality to board decision-making. They also argue that a more gender diverse board may generate a better public image of the firm and, through this, improve firm performance. Therefore, we hypothesize that:
H2C: There is a significant positive relationship between proportion of female directors on the board and firm performance in Pakistan.

2.4 CEO duality

Commonly, CEO Duality is referred to a situation when a single person holds the two top positions in company's management, Chief Executive Officer (CEO) and chairman of the board. The position of CEO and chairman do show effect on firm performance. Yermack (1996) finds that firms are more valuable and well performed when these two positions are separate. Brown and Ceylor (2004) shows that firms with separate CEO and board chairman position are more valuable. One of the famous management theories, named agency theory says that CEO duality is harmful for proper working of the governance board because it reduces impartiality and adversely effects the independent evaluation of board on management's actions. Fama and Jensen (1983) explained that CEO and Chairman Positions should not be held by a single person because holding two top positions by single person makes him/her dominate over all other members of board and adversely effects proper monitoring role of board of managerial activities. Contrastingly, Pfeffer and Salancik (1978) suggested that leaders having more power are relatively at better position to implement the long term decisions and can also manage the resistance that arises in response of a new policy or decisions in a better way. In view of Brickley et al. (1997) there is no fixed form of leadership because every leadership structure has its pros and cons. For example, Abor and Biekpe (2007) using sample of SMEs of Ghana found that CEO Duality contributes positively towards firm performance. On other hand, Ehikioya (2009) concluded that CEO and chairman position held by a single person adversely affect firm performance. Therefore, both roles should be separated. Based on the previous research we hypothesize that:
H3: There is a significant negative relationship between CEO duality and firm performance in Pakistan.

2.5 Audit committee Independence

Audit committee in any given company is considered an internal supervising system, which can monitor the activities of the management so that management can act in the best interests of shareholders and achieve the objective of shareholders' value maximization. The main purpose of Audit committee (AC) of company is to "enhance the reliability of information provided in the financial statements by the company to stake holders and spreading impartiality in firm's affairs (Bradbury, 1990). Audit committee of company has also been defined as agents of shareholders who keep checks and balances on managements activities so that management work for

welfare of the shareholders over time (Harrison, 1987, English, 1994, Menon and Williams, 1994, Mitton, 2002, Gendron and Bédard, 2006). The results on relation between audit-related governance and firm performance are mixed. Brown and Ceylor (2004) find that independent audit committee have positive relation to dividend yield but don't have significant effect on operating performance and firm valuation. Klein (2002) shows a negative relation between earning management and audit committee independence. Anderson et al. (2004) finds that independent audit committee results in lower debt financing cost. Frankel et al. (2002) gives a negative relation between auditor independence and earning management, based on audit fee. On the basis of this we hypothesize that:

H4: There is a significant positive relationship between Audit committee independence and firm performance in Pakistan.

3. Methodology

3.1 Data and Sample Selection

Our sample contains data of all non-financial companies listed on Karachi stock exchange (KSE)-100 indexes in Pakistan for the period of 2010 to 2013. Karachi stock exchange (KSE) is the largest stock exchange of Pakistan. Index that is used on Karachi stock exchanges is named as KSE-100 index. As described by official website of Karachi exchange of Pakistan (KSE), KSE-100 Index was constructed in November 1991 with base value of 1000 points. 100 in that index refer to the 100 top companies in corporate sector. This index includes top hundred companies and basis for choosing those companies is sector representation and highest market capitalization. The data was obtained from BVD OSIRIS data base and annual reports of the firms listed on KSE 100 Index. We exclude the financial firms and firms with missing data resulting in 196 firm year observations for 49 companies. Those selected companies cover more than 90% of whole the capitalization of the firms listed on Exchange.

3.2 Variables Definitions

The proxies that are used to measure the corporate governance include Non-Executive Directors (NEX), CEO Duality (CEOD), Board Size (Bsize), Audit Committee Independence (ACI), Family Directors (FAMD) and Female Directors (female director). Detail of all the variables is gives in following table.

Table 1 Definition of Variables

Dependent Variable	
Tobin's Q	*We use the natural logarithm of the ratio of the market value of assets to book value to proxy for Tobin's Q. The book value of assets is total assets. The market value of assets is total assets plus the market value of equity minus the book value of equity. The market value of equity is the stock price at the end of the fiscal year time's common shares outstanding.*
Explanatory variables	
Non-Executive Directors (NEX)	*Log of the number of Non-Executive directors on the board.*
CEO Duality (CEOD)	*Dummy variable: One if chairman and CEO post are held by single person otherwise zero.*
Board Size (Bsize)	*Log of firms board size. Board size is defined as total number of directors on firm's board.*
Audit Committee Independence (ACI)	*Dummy variable: One if chairman of the audit committee is not from family or an executive director otherwise zero.*
Family Directors (FAMD)	*Log of the number of family directors on the board.*
Female Directors (femaledirector)	*Log of the number of female directors on the board.*
Control Variables	
AGE	*Log of age of firm: age of firm is defined as total number of years firm is in business since date of incorporation.*
CFO	*Log of operating cash flows of the firm.*
SIZE	*Log of total assets.*

3.3 Regression Model

We used panel data methodology because the sample contained data across firms and over time. Moreover, panel data sets are better able to identify and estimate effects that simply are not detectable in pure cross-sectional or pure time-series data. Ordinary least squares (OLS) method is used to estimate the relationship between the internal

attributes of corporate governance and the measure of firm performance. Specifically, we estimate the following regression model;

$$\mathbf{Tobbinsq_{it} = \beta_0 + \beta_1 NEX_{it} + \beta_2 CEOD_{it} + \beta_3 Bsize_{it} + B_4 ACI_{it} + \beta_5 FAMD_{it} + \beta_6 femaledirector_{it} + Age_{it} + CFO_{it} + SIZE_{it} + \varepsilon_{it}} \quad (1)$$

Where $TobinsQ_{it}$ is the TobinsQ of ith firm in time t, EX_{it} is the Non-Executive directors of ith firm in time t, $CEOD_{it}$ is the CEO duality of ith firm in time t Bsizeit is the board size of ith firm in time t, ACI_{it} is Audit committee independence of ith firm in time t, $FAMD_{it}$ is family directors of ith firm in time t, $femaledirector_{it}$ is the female directors of ith firm in time t β_0 is the intercept and ε_{it} is the random error term for the ith firm in time t.

4. Empirical Results and Analysis

Table 2 presents the descriptive statistics of the all regression variables in the study. Average number of members on the board is between 8 and 9. Minimum size of board is 6 whereas maximum is 15. Average number of non-executive directors on the board is 5. Interestingly, overall number of non-executive directors on the board is more than the executive directors. In total, percentage of non-executive directors on the board is around 60%. Minimum number of non-executive on the board is 1 whereas maximum number is 13. In 20% of companies in the sample, Chief Executive Officer (CEO) is also the chairman. In only 25% of companies in the sample, chairman of the audit committee is a non-family member or a non-executive director. Average size of companies in the sample is around 23. Minimum size of company is sample is 20.45 whereas maximum size is 26.74. Average number of family directors on corporate boards is around two. Maximum number of family directors on corporate board is 7 and minimum number is zero. A female director representations on the board is very low, less than 10 percent companies in the sample is having female directors on the board. Maximum number of female directors on the board is 2 and minimum number of female directors on the board is zero. Average age of the companies in sample is around 38 years. This indicates that all the companies in sample are well established and are in the maturity stage of the business cycle. Minimum value of CFO is negative which shows that firms have more cash outflows than inflows.

Table 3 shows the correlation matrix for the variables. It can be observed from the table that board independence measure that is the number of non-executive directors on the board (NEX) has positive correlation with Tobins Q, which implies that more the board will be independent better will be the performance of the company. As for company leadership, it can be seen that CEO Duality (CEOD) is negatively correlated with Tobins Q which implies that CEO Duality causes accumulation of power and adversely affects independent evaluation on the corporate Board. CEO Duality (CEOD) is also negatively correlated with number of non-executive directors on the board (NEX). This refers that if in any company the posts of CEO and chairman post are held by single person, then that CEO hinders the inclusion of non-executive directors on the board which ultimately negatively affects the independence of the board of the company. Board size is positively correlated with Tobins Q and it indicates that, overall more members on the board bring diversity, ideas, intellect and experiences in corporate decision making process. Board size is also positively correlated with number of non-executive directors on the board, this implies that larger the board more it will help in building impartiality and independence on the governance board. Audit committee independence (ACI) is also positively correlated with Tobins Q; this indicate that greater independence of audit committee will contribute to performance of the firm. Family directors (FAMD) are negatively correlated with Tobins Q and it refers that more family directors on the board will affects independent monitoring of the board and therefore will adversely impact firm's performance. Family directors (FAMD) are also negatively correlated with non-executive directors (NEX) on the board which refers that in order to gain more control on the board, family directors hinders the inclusion of non-executive directors on the board. Female directors on the board (female directors) are negatively correlated to Tobins Q too. The main reason behind this type of correlation is that most of the female directors on the board are very closely related to CEO (Chief Executive Officer), Chairman or controlling family.

Table 2 Descriptive Statistics of Variables

Variable	N	Mean	Median	SD	Min	Max
TobinsQ	196.000	3.386	0.986	19.940	0.239	246.952
NEX	196.000	5.107	5.000	2.283	1.000	13.000
CEOD	196.000	0.204	0.000	0.404	0.000	1.000
Bsize	196.000	8.561	8.000	1.820	6.000	15.000
ACI	196.000	0.255	0.000	0.437	0.000	1.000
FAMD	196.000	1.954	2.000	1.852	0.000	7.000
femaledirector	192.000	0.323	0.000	0.639	0.000	2.000
CFO	196.000	3.93	4.94	1.640	-6.89	1.86
AGE	196.000	38.194	43.000	17.791	6.000	66.000
SIZE	196.000	23.114	22.993	1.360	20.452	26.749

TobinsQ is natural logarithm of the ratio of the market value of assets to book value to proxy for Tobbin'sQ. The book value of assets is total assets. The market value of assets is total assets plus the market value of equity minus the book value of equity. The market value of equity is the stock price at the end of the fiscal year time's common shares outstanding. NEX Log of Non-Executive directors on the board, CEOD Dummy variable: One if chairman and CEO post are held by single person otherwise zero. Bsize is Log of firm's board size. Board size is defined as total number of directors on firm's board. ACI is Dummy variable: One if chairman of audit committee is not from family or executive director otherwise zero. FAMDI Log of family directors of board size. femaledirector is Log Number of female directors on the board. CFO is Log of operating cash flows of the firm. AGE is Log of age of firm: age of firm is defined as total number of years firm is in business since date of incorporation. SIZE is Log of total assets.

Therefore, inclusion of female directors that are closely linked with controlling owners also influence adversely on independent monitoring capability of board of the firm.

TABLE 3 CORRELATION MATRIX

	TobinsQ	NEX	CEOD	Bsize	ACI	FAMD	Femaledirector	CFO	AGE	SIZE
TobinsQ	1.000									
NEX	0.204	1.000								
CEOD	-0.115	-0.386	1.000							
Bsize	0.118	0.144	-0.009	1.000						
ACI	0.121	0.003	0.127	0.265	1.000					
FAMD	-0.183	-0.067	-0.079	0.147	0.571	1.000				
Femaledirector	-0.082	-0.372	0.156	0.131	0.358	0.287	1.000			
CFO	-0.127	-0.123	-0.104	-0.223	-0.027	0.060	-0.115	1.000		
AGE	-0.055	0.127	0.258	-0.057	-0.255	-0.466	-0.109	-0.316	1.000	
SIZE	0.012	-0.075	-0.043	-0.829	-0.315	-0.178	-0.153	0.331	0.041	1.000

TobinsQ is natural logarithm of the ratio of the market value of assets to book value to proxy for Tobbin'sQ. The book value of assets is total assets. The market value of assets is total assets plus the market value of equity minus the book value of equity. The market value of equity is the stock price at the end of the fiscal year time's common shares outstanding. NEX Log of Non-Executive directors on the board, CEOD Dummy variable: One if chairman and CEO post are held by single person otherwise zero. Bsize is Log of firm's board size. Board size is defined as total number of directors on firm's board. ACI is Dummy variable: One if chairman of audit committee is not from family or executive director otherwise zero. FAMDI Log of family directors of board size. Femaledirector is Log Number of female directors on the board. CFO is Log of operating cash flows of the firm. AGE is Log of age of firm: age of firm is defined as total number of years firm is in business since date of incorporation. SIZE is Log of total assets.

For the control variables, age is negatively correlated with firms Tobins Q, as our sample includes quite mature companies therefore, it indicates that with time as firm moves towards maturity stage its opportunities for growth decreases and performance also decreases with age. Furthermore, operating cash flows (CFO) is negatively correlated with Tobins Q. Main reason behind this is that Tobins Q is market measure of performance so many other things (shareholders expectation about future performance, economic environment etc.) also affect it in combination of (CFO). Size is also positively correlated to Tobins Q, this refers that larger companies got more recourses therefore they can avail more opportunities as compared to smaller companies and this can improve company's performance.

Table 4 Regression results for corporate governance and firm performance

TobinsQ	***Coefficient***	***t-statistic***
Cons	*-13.83****	*-2.87*
Independent variable		
NEX	*0.58*	*1.68*
CEOD	*0.56*	*1.05*
Bsize	*4.10****	*3.52*
ACI	*0.66***	*2.28*
FAMD	*-1.1***	*-2.27*
femaledirector	*-0.31*	*-1.668*
Control Variables		
CFO	*-0.0002***	*-2.60*
AGE	*-0.0001*	*0.02*
SIZE	*0.67****	*3.34*
Adj-R2	*0.3840*	
F-value	28.230***	

TobinsQ is natural logarithm of the ratio of the market value of assets to book value to proxy for Tobbin'sQ. The book value of assets is total assets. The market value of assets is total assets plus the market value of equity minus the book value of equity. The market value of equity is the stock price at the end of the fiscal year time's common

shares outstanding. NEX Log of Non-Executive directors on the board, CEOD Dummy variable: One if chairman and CEO post are held by single person otherwise zero. Bsize is Log of firm's board size. Board size is defined as total number of directors on firm's board. ACI is Dummy variable: One if chairman of audit committee is not from family or executive director otherwise zero. FAMDI Log of family directors of board size. Femaledirector is Log Number of female directors on the board. CFO is Log of operating cash flows of the firm. AGE is Log of age of firm: age of firm is defined as total number of years firm is in business since date of incorporation. SIZE is Log of total assets.

Table 4 contains Ordinary Least Square (OLS) results of regression for Tobins Q and corporate governance variables. Model has passed F-test and adjusted R^2 is 38%. It can be observed from the results that the measure of number of independent directors on the board (NEX) is not significant but its coefficient shows the positive association with Tobins Q in line with hypothesis 2A.

Secondly, Pakistan is one of those economies that have weak law enforcement. Previous research also provides evidence that Pakistan lies in the cluster of the insider economies with high concentration, weak investor protection and low enforcement. (Leuz et al., 2003). And also the Coefficient of the (NEX) is very small which indicates that independence of the board does not contribute too much to firm's performance. Our results are consistent with Fracassi and Tate (2012) who also found similar kind of relationship between board independence and firm value. Measure of leadership in the firm, CEO Duality (CEOD) coefficient sign is in line with Hypothesis 3 but its value is not significant. This result is in line with many studies like Elsayed (2007) and Mashayekhi and Bazaz (2008). As Elsayed (2007) argued that, CEO Duality (CEOD) may only be significant and positive when performance of the company is very low. Our sample consist of all well established and well performing companies on KSE-100 index, therefore the coefficient of CEO Duality (CEOD) is not significant. Board size is positive and highly significant, almost at 1% and also the coefficient of Board size (Bsize) is highest among the all other measure of corporate governance. This is completely in line with our Hypothesis 1. This implies that greater board size will result in more diversity, experience, intellect and better quality of monitoring on the board which will positively impact firm's performance. Our results are consistent with many prior studies like Van den Berghe and Levrau (2004), Andersonet, Mansi and Reeb, 2004), Jackling and Johl, (2009) and Ehikioya, (2009) etc. Coefficient of measure of Audit committee independence (ACI) is also completely in line with our Hypothesis 4. This implies that independence of Audit Committee smooth flow of information among all the channels of company, increases credibility of information of the company, keeps proper check and balance on management of the company, decreases probability of frauds and increases quality of disclosures. These all things create good image of the company in the mind of investors and increases firm value for investors of the firm. This result is indicated in many previous researches like Eichenseher and Shields (1985), DeZoort (1998), Carcello and Neal (2003), Harrison (1987), English (1994), Menon and Williams (1994), DeZoort, Hermanson, Archambeault and Reed (2002) and Gendron and Bédard (2006). Additionally, Coefficient of family directors on the board (FAMD) is negative and significant at 1%. This is also in line with our Hypothesis 2B. This indicates that family directors on the board play expropriating role and undermine the interest of minority shareholders. Family directors on corporate board also impacts impartial monitoring of the board and send negative signal in the minds of investors that family is having full control on company and minority shareholders interest will be at risk in that company . This results in adverse impact on firm's performance. Having family directors on the board also signifies the control of family in company and many studies have found negative relationship of family control and firm value like Faccio et al. (2001). Measure for female directors (female director) on the board is also not significant. Results are different from what we had predicted in the Hypothesis 2C. There might be several factors for explaining the results, for example there are only few companies in the sample which have female representation on the board. Its coefficient has also negative sign, because most of the female directors on the boards of companies in the sample are either relatives of CEO (Chief Executive Officer) and chairman or they have other social connections based on different activities. Therefore such kind of female directors also undermine the quality of board performance. Moreover, Pakistan cultural factor can also be taken under consideration as Pakistan has male dominated society. For control variables, operating cash flows measure (CFO) has negative and significant coefficient, which is surprising. But main reason behind this is that Tobins Q is market measure of performance and there are lots of variable in external environment which can affect it (like state of country, investors' expectations, political instability etc.). Pakistan during study years was also facing many problems like energy crisis, political instability, terrorism etc. This kind of situation created doubt in the minds of investors from investing in the companies that were having good cash flows and other performance measures. Age of firm has negative coefficient which implies that mature firms have lesser opportunities of growth and it hurt performance. Size has positive coefficient, this implies that bigger firms has more resources and expertise to avail opportunities than smaller firms.

5. Conclusion and Findings

Properly functioning corporate board is very much important for better performance of the company. Members

on the Board can add to companies' activities both by giving proper suggestions to managers and monitoring managerial actions and policies whether they are being implemented or already implemented in the company. Directors represent shareholders on the board therefore, a good director is one who impartially monitors the activities of the management and gives his independent opinion on the activities of management which will benefit the shareholders. Therefore, it is of quite significance to know about the factors that will impact directors' capability and willingness to bring valuable information to company and to monitor in impartially. We found positive significant relationship between Audit Committee and firm performance and this result is consistent with recent research evidence like DeZoort et al. (2002) and Gendron and Bédard (2006). Furthermore, we found that adding female director on the board also negatively affects firm' performance. The reason behind this is also social connections between female directors and chairman, CEO and controlling family because; most of the female directors in our sample are relatives either of CEO or controlling family. We could not find significant relationship between independence on the board and firm performance. As explained by recent evidence like Fracassi and Tate (2012) board independence has little impact on firm's performance that can be reason for its insignificant coefficient. In this study, sample of Pakistani companies is used because it has issued Code of Corporate Governance recently and there has been little known about gaps in that code. Those gaps can be exploited by some members of corporate sectors. So this study sheds some lights on the gaps in the code like, it does not specify clearly the characteristics of external directors to be appointed on the board and in result of that either management or controlling shareholders take advantage of that gap by appointing socially connected directors. For the sake of making Corporate Governance Code more effective, this study also helps the regulators in identifying the gaps available in current code especially in the field of external directors' role and responsibilities. The results of this study also helps the investors by providing new perspective of checking the independence of the governance board of the company and helps them in better evaluation of the company. Finally, this study has potential implications for relevant countries which have similarities in legal framework and corporate environment. The future research could be directed towards examining the social connections between controlling owners and directors and how these social connections undermine effective corporate governance mechanisms.

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