



Board Effectiveness, Ownership Structure and Corporate Performance: Evidence from Pakistan

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Abstract

This unique study has adopted an integrative approach of taking both board effectiveness and ownership structure to measure its effect on firm performance. A random sample of 100 listed non-financial companies on Pakistani Stock Market was selected for the period ranging from year 2007 to 2012. Board effectiveness is measured by independent directors, frequency of meetings, board size and CEO duality, while ownership structure is measured by ownership concentration, institutional ownership, managerial ownership, and firm performance is measured by Marginal Q and ROA. Pooled dummy regression model has been applied for analysis and the results indicate a significant positive impact of independent directors, frequency of meetings and board size on firm performance. On the other hand the findings of this study showed the adverse effect of ownership concentration and dual role of CEO on the corporate financial performance. The results have implications for regulatory authorities, directors and shareholders to take steps to improve the board and ownership structure for better performance.

Keywords: Board effectiveness, ownership structure, marginal Q

JEL Classification:

1. Introduction

Corporate Governance has attained much importance over last few decades due to accounting scandals over the globe. Therefore, governments and regulatory authorities have taken steps to make it mandatory for the companies to implement corporate governance. Companies can decline the investors risk, generate more investment capital and ultimately enhance their performance by incorporating practices regarding good corporate governance. Shleifer & Vishny (1997) describes corporate governance as those procedures which provide certainty to the capital providers to acquire more returns on their contributions, help capital contributors in getting their share of profit from the

management, avoid mismanagement of their resources or irrational investment in projects, and ultimately enable investors to have a control over management.

The concept of corporate governance is defined by various authors over times. According to Cadbury Committee (1992) corporate governance is a structure that is intended to control the conflict of interest arising between the owners and the managers. This conflict creates agency problem and it adversely affects the firm performance (Jensen & Meckling, 1976; Myer & Majluf, 1984; Fama and Jensen, 1983; Roberts, 2005). Furthermore, Mayer (1997) defined that corporate governance deals with aligning the interest of both principal and agent in order to ensure that the firms are being run in the best interest of investors. On the other hands, proponents of stewardship theory argue that managers' interests are aligned with firms' interest (Breton-Miller & Miller, 2009). Managers strive for the better performance to get good incentives. Therefore, there is no conflict of interest between manger and a company. This view of mangers could be the key factor in improving firm performance. However, the managers may not perform the role of stewards when there is weak governance structure (Core, Holthausen & Larcker, 1999). Therefore, it remains a financial puzzle whether managers are opportunistic or not.

This research study has attempted to investigate whether agency theory or stewardship theory holds in Pakistan. Current study is fruitful for policy making in order to motivate block holders to provide effective monitoring of managers in Pakistani listed companies. In Pakistan firms are mostly owned by families and closed groups. These block holders often have more controlling rights than their cash flow rights. This entrenchment effect results in lower firm value. This entrenchment effect of block holders is yet to be studied in Pakistan. This study has explored the effect of controlling rights on firm value. Moreover, we have used an integrative approach to study the effect of board effectiveness and ownership structure on firm performance and it has implications for both managers and shareholders. In this paper, marginal Q and accounting based measures are used to determine the performance. In previous literature Tobin's Q is a tool to measure the company's performance. Tobin's Q discloses the average yield of the company and leaves the marginal return. However, in marginal Q marginal return is used to test the agency problem. Thus, it is also beneficial for policy maker's concerning corporate governance to improve the firm performance.

2. Literature Review

Corporate governance is key mechanism that companies use to run and manage their affairs in the interest of all major stakeholders. In Pakistan, the securities and Exchange Law 1969 is existent for the protection of stockholders, market regulation, insider trading, and delisting of securities. Securities Exchange Commission of Pakistan presented code for corporate governance in 2002. the corporate governance play a pivotal role in developing its structures as well as the ownership structures for businesses in order to ensure the ethical behavior of management and its favorable decision making for the beneficiaries. The following key determinates of firm performance have been identified in previous studies.

2.1 Board Effectiveness

Board effectiveness is the most important factor that is necessary for good corporate governance should have effective board structure. Board effectiveness depends upon board size, CEO duality, board independence and board meetings. Board size plays an important role in decision-making and creating balance of board. For example, Jensen (1983) proposed that a board should have seven to eight directors to perform effectively. Meanwhile, Jensen (1986) also recommends that smaller boards improve communication, unity and coordination. However very large boards are less valued as compared to small board because CEO can easily control the firm (Lipton & Lorsch, 1992). Jensen (1993) also concludes that relatively small boards perform more efficiently than large board; high cost is connected with large board for coordination. On the other hand, several researchers claim that larger board brings more diversity and expertise to decision-making process and improves performance of the company (Varshney, Kaul & Vasal, 2012).

Another crucial factor relating to board effectiveness is duality that means CEO hold 2 positions; CEO also serve as chairman of the firm. In scrutinizing management board effectiveness is decreased due to CEO and Chairman Duality in the firm (Fama & Jensen, 1983). According to Yermack (1996), when CEO and chairman have separate seats or position in firm, performance of the firm is better. If same person serves on both seat (CEO and chairman), it may cause agency problem. Therefore there is negative association between CEO-chairman duality and company performance, and it can adversely affect board effectiveness (Chaghadari, 2011; Varshney, Kaul & Vasal, 2012; Haider, Hassan, Hashmi and Hussain, 2013).

Independent directors are those directors who are not working in current company and do not have any business interest. The greater proportion of independent non-executive directors improves the performance of the company because they reduce the biasness in decision-making and bring transparency (Denis and Sarin, 1999; Mashayekhi & Bazaz, 2008; Zubaidah, 2009). Dahya et al. (2008) also suggest that percentages of independent directors are positively associated with firm performance along with governing investors and countries with lower protection of investor rights. In addition, they also hold that greater proportion of independent directors on the board decrease related party transactions. Cheng, Su and Zhu (2012) argue that effective board of directors can reduce the negative relation among company growth and concentrated ownership with dominant management entrenchment effect. Based on this discussion, it can be argued that board independence should lead to improved firm performance.

Frequency of board meetings in a year is another dimension of board effectiveness having positive effect on firm performance (Coleman, 2008). A higher frequency of meetings can lead to a better quality of management follow-up, and therefore have positive influence on the economic performance of the company (Vefas, 1999; Ntim, 2009). Mangena and Tauringana (2008) argue that board meetings can help managers to stay up-to-date and knowledgeable on significant progress within the company, and therefore place them in a better position to rapidly address critical emerging issues. Firms that are proficient in setting the appropriate frequency of board meetings can reduce agency costs, and thus increase the economic performance of the company (Vafeas, 1999). Moreover, Ntim and Osei (2011) find the positive relationship

between frequency of meetings and firm performance; it implies that boards that meet more often have a tendency to create more economic outcomes. On the other hand, frequent meetings encompass the management time and rise in travel costs, administrative support needs and meeting fees for directors. This may affect the company's activities within the company as the resources are channeled towards less industrious activities.

2.1 Ownership Structure

Association between firm performance and ownership structure has received greater attention in literature. These studies have shown different results that how ownership structure influences firm performance. We now discuss three components of ownership structure, namely, institutional ownership, ownership concentration, managerial share ownership.

Ownership concentration refers to proportion of shares held by controlling shareholders as compared to total outstanding shares of the firm. Ownership concentration has either positive or negative influence on firm performance. For example, Shah, Butt & Saeed (2011) finds negative relation between ownership concentration and firm performance because family-owned firms in Pakistan dominate the board and there is lack of expertise, diversity and new knowledge for achieving operational efficiency. The similar results have been found in other studies as well [(see, for example, Ongore (2011); Tsegba & Herbert (2014)]. On the other hand, Javid & Iqbal (2008) evidence the positive effect of ownership concentration on firm performance.

Managerial ownership refers to proportion of outstanding shares possessed by management in the company. As discussed earlier, the conflict of interest is created due to separation of ownership between managers and shareholders. Therefore, managerial ownership should lead to more alignment of interest and reduction in agency cost, the result is improved financial performance because managers work best to get incentives linked to their investments (Jensen & Meckling, 1976). On the other side, excessive managerial ownership provokes manager's entrenchment and to enjoying private benefit of control. In this context, commented that there is a union of interests between investors and administrators due to the rises of management ownership, which intern facilitates the organizations to reduce the cost of agency and ultimately increase the firm. On the other hand, Demsetz (1983) argue that there is decline in firm performance due to the increased level of insider ownership. However, it depends upon the level of insider ownership. For, example, Iturralde, Maseda & Arosa (2011) shows that firm performance enhances if insider ownership lies between 0 and 35%. The reason behind this is entrenchment effect; the better incentives for insiders maximize the firm performance, as their equity holding raises. They further conclude that if insider ownership lies between 35% and 70%, the performance of firms declines when their percentage of ownership increases.

Institutional shareholders have significant influence on corporate performance. The institutional investors retain the chance to have access to the resources, and proficiency to supervise, discipline, and affect managers (Shleifer & Vishny, 1997). Fung & Tsai (2012) found the positive effect of institutional ownership on firm performance. Outside investor are protected through better corporate governance because institutional investors monitor the board and bring valuable advice and expertise (La Porta et al.,

2000). Ameer, Ramli & Zakaria (2010) provide evidence that institutional ownership and overseas ownership advance the firm performance and board. However, Wei, Xie & Zhang (2005) reported that there is adverse relation among state ownership and firm growth, but positive and significant correlation among overseas ownership and organization value.

There are several other firm-specific factors such as firm size, leverage and age that may affect firm performance and these should be considered to address any omitted variable bias in the data analysis.

Demsetz and Lehn (1985) argue that business size is inversely related to concentrated ownership. In addition size of company probably has a negative effect on the concentrated ownership because of the restrictions of capital and risk deviation (Hu and Izumida, 2008). Al Farooque et al. (2007) concluded that the correlation among firm size and performance of firm is significantly negative because larger firm may reached maturity stage and be moving towards diseconomies of scale or two diversified. Meanwhile, Hu and Izumida (2008) recommended that link among company size and firm performance is positively significant because smaller firm have higher growth rate as compared to larger firms.

Leverage is another control variable that may affect the firm performance having either positive or negative effect. For example, Penman (2007) holds that leverage is form of loan or debt acquired to obtain better return than cost of interest, therefore it puts pressure on the firm to achieve corporate performance. On the other hand, too much debt may impose adverse effect due to heavy cost of financial distress and debt service causing decrease in profitability (Chen et al, 2005; Grosfeld & Hashi, 2007; King & Santor, 2008; Ng et al, 2008; Hu and Izumida, 2008).

The previous studies show that age of firm improves the firm performance; when companies get older they acquire more capabilities and techniques. Furthermore, age of firm increases the life expectancy (Dunne, Roberts and Samuelson, 1989), and Baker and Kennedy (2002) conclude that older firms are more sustainable. Meanwhile, Evans (1987) concludes that age of firm does reduce the firm development.

3. Hypothesis Development

We have formulated ten hypotheses on the foundation of literature review and purpose of study.

H₁: There is a negative association between ownership concentration and firm performance of Pakistan.

H₂: Institutional Ownership has significant negative effect on firm performance.

H₃: Managerial ownership has negative effect on firm performance.

H₄: There is a positive association between board size and firm performance.

H₅: Outside members in board has positive effect on firm performance.

H₆: CEO duality has negative effect firm performance.

H₇: Frequency of board meeting has significant effect on firm performance.

H₈: There is positive relationship between firm size and firm performance

H₉: Leverage has negative impact on firm performance.

H₁₀: Age has positive impact on firm performance

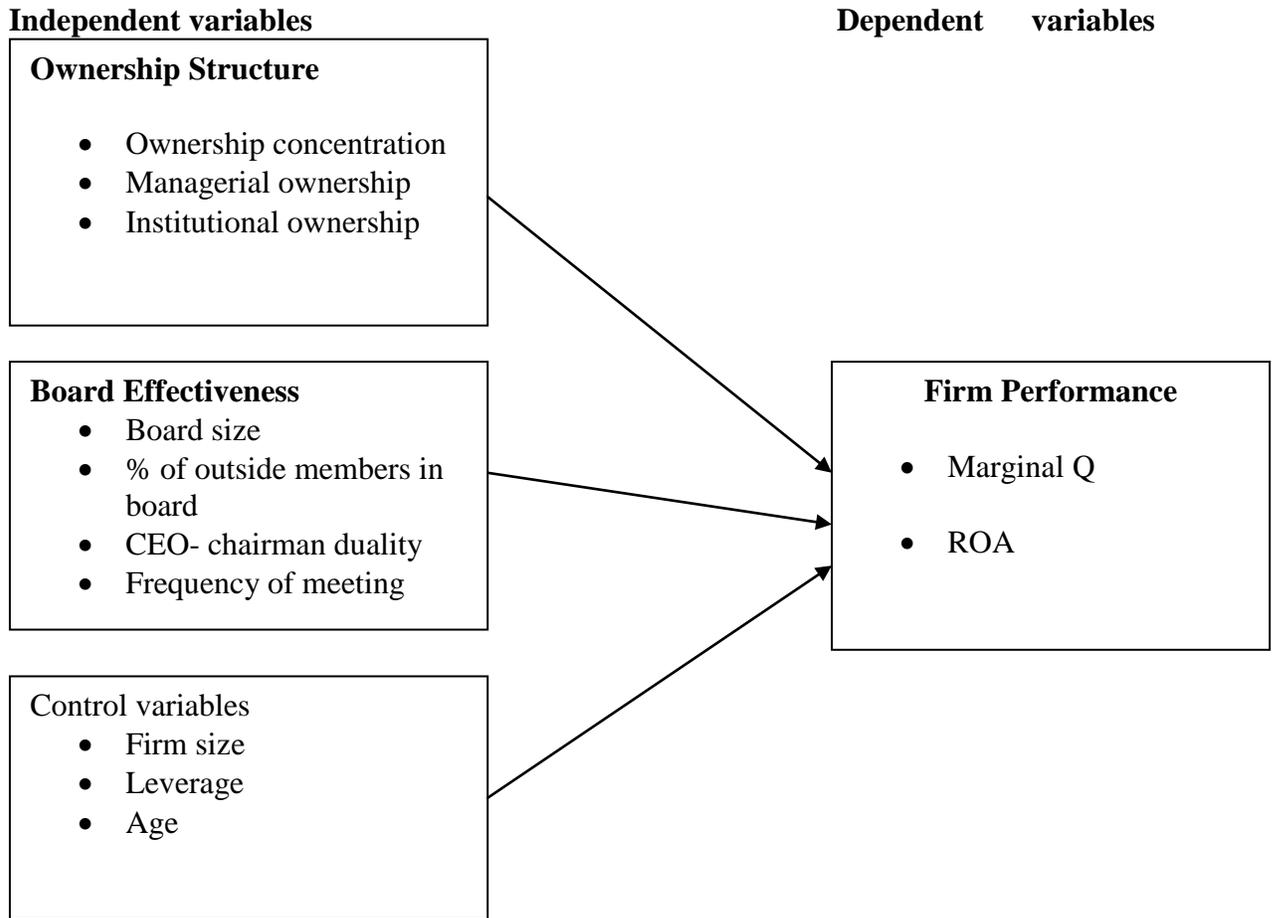


Figure 1: Theoretical framework of the study

This model shows that ownership structure and board effectiveness are independent variable and firm performance is dependent variable.

3. Methodology

This study requires firm specific data for dependent and independent variables from annual reports of firms those are registered at Karachi Stock Exchange; the sample includes hundred non-financial firms taken randomly from total 651 listed companies. The data has been taken for five years from 2007 to 2012.

To measure firm performance marginal q and return on assets are selected as dependent variables. Marginal Q is change in market value divided by change in capital investment of the firm and return on asset is earning after tax divided by total assets According to Gugler, Mueller and Yurtoglu (2003), marginal Q is calculated assuming that I_t is investment of firm at time t and CF_{t+j} are cash flows created by investment at time t+j and this is discount rate at time t, then present value of investment is

$$PV_t = \sum_{j=1} CF_{t+j} / (1+i_t)^j \quad (1)$$

Permanent return r_t can compute to i_t by taking PV_t equation (i) and investment I_t that produces this and the ratio will be equal to q_{mt}

$$PV_t = I_t r_t / i_t = q_{mt} I_t \quad (2)$$

If the company has a project that generates permanent returns for company then that project has same PV_t .

Company's market worth at time t is

$$M_t = M_{t-1} + PV_t - \delta_t M_{t-1} + \mu_t \quad (3)$$

Here δ_t is total capital depreciation, μ_t is market error and deducting M_{t-1} from both sides of equation (iii) and substitute the PV_t with $q_{mt} I_t$ earnings.

$$M_t - M_{t-1} = q_{mt} I_t - \delta_t M_{t-1} + \mu_t \quad (4)$$

Two sides are divided by M_{t-1}

$$M_t - M_{t-1} / M_{t-1} = -\delta + qm I_t / M_{t-1} + \mu_t / M_{t-1} \quad (5)$$

The key emphasis of this study is to scrutinize the factors of ownership structure and board effectiveness that influence the firm performance. In this study panel data analysis is used. Panel data is basically cross sectional and time series data. Panel data technique provides a way of estimating and testing relationships whereas data comprising time series for cross section of persons, companies, marketplaces, countries, etc. and data is examined by two or more period of time. Analysis of panel data has two key benefits during analysis of time series and cross sections: (1) It uses more information and presents more inconsistency in the figures and therefore conclusion of the model factors can be more correct; (2) Control of factors that are ignored / missing / unnoticed.

Equation of basic panel regression is

$$Y_{it} = \alpha + \beta X_{it} + \varepsilon_{it} \quad (6)$$

Where

Y=dependent variable α & β = coefficients

X= independent variable t =time series

i=cross-section

The regression equation with industry dummy is

Model 1

$$MQ = \alpha_0 + \alpha_1 OC_{it} + \alpha_2 MSO_{it} + \alpha_3 IO_{it} + \alpha_4 BS_{it} + \alpha_5 IND_{it} + \alpha_6 DU_{it} + \alpha_7 FM_{it} + \alpha_8 SIZE_{it} + \alpha_9 LEV_{it} + \alpha_{10} AGE_{it} + \alpha_{12} Dhs_{it} + \alpha_{13} Dsug_{it} + \alpha_{14} Dpbts_{it} + \alpha_{15} Dcms_{it} + \varepsilon_{it} \quad (7)$$

Model 2

$$ROA_{it} = \beta_0 + \beta_1 OC_{it} + \beta_2 MSO_{it} + \beta_3 IO_{it} + \beta_4 BS_{it} + \beta_5 IND_{it} + \beta_6 DU_{it} + \beta_7 FM_{it} + \beta_8 SIZE_{it} + \beta_9 LEV_{it} + \beta_{11} AGE_{it} + \beta_{12} Dhs_{it} + \beta_{13} Dsug_{it} + \beta_{14} Dspbts_{it} + \beta_{15} Dcms_{it} + \varepsilon_{it} \quad (8)$$

Table 1: Variables Description

| Variables | Description | Measurement |
|------------------|----------------------------|--|
| MQ | Marginal Q | (change in market value / change in capital investment) |
| ROA | Return on assets | (net earnings / total assets) |
| OC | Ownership concentration | (the percentage of shares held by controlling owner) |
| MSO | Managerial share ownership | (percentage of shares held by members of board) |
| IO | Institutional ownership | (percentage shares held by institution / total number of shares outstanding) |
| BS | Board size | (number of board members) |
| IND | Independent directors | (proportion of outside members in board) |
| DU | CEO Chairman duality | (CEO duality measure as a dummy: equals 1 when a CEO doubles as board chair and 0 otherwise) |
| FM | Frequency of meeting | Number Of Meetings |
| SIZE | Firm size | (logarithm of total assets) |
| LEV | leverage | (book value of debt divided by book value of total assets) |
| AGE | Age | (natural log of age or number of years since company incorporated) |
| Dhsg | | Dummy of household goods sector |
| Dsug | | Dummy of sugar sector |
| Dspbts | | Dummy of Pharma and Bio Tech sector. |
| Dcms | | Dummy of Chemicals sector |

4. Results and Discussion

In this section, the statistical results have been discussed in term of both research hypothesis and literature review in order to determine whether the support from the results is warranted to the supporting theories. The outcomes of this study along with the reasons of the observed outcomes are as follows.

Table 2: Descriptive Statistics

| | Mean | Std. Dev. | Min | Max |
|-------------|-------------|------------------|------------|------------|
| MQ | 16.41 | 104.30 | -0.26 | 1718.05 |
| ROA | 3.85 | 12.53 | -67.59 | 53.13 |
| OC | 50.89 | 17.43 | 19.83 | 88.23 |
| MSO | 18.38 | 23.11 | 0.00 | 88.07 |
| IO | 25.89 | 26.19 | 0.00 | 95.43 |
| BS | 8.38 | 1.84 | 7.00 | 13.00 |
| IND | 0.42 | 0.13 | 0.13 | 0.71 |
| DU | 0.31 | 0.46 | 0.00 | 1.00 |
| FM | 4.79 | 1.41 | 2.00 | 12.00 |
| SIZE | 8.99 | 0.56 | 5.64 | 11.11 |
| LEV | 0.70 | 0.37 | 0.16 | 3.54 |
| AGE | 1.50 | 0.19 | 0.70 | 1.76 |

Table 1 shows the descriptive statistics of sample data. Mean value of Marginal Q is observed as 16.41 showing the average figure of MQ for all the selected firms. Return on assets presents an average value of 3.58 which means for each one rupee invested in assets these companies can generate 3.58 rupees of earnings. Ownership concentration (OC) has 50.89 mean value; it implies that almost 50% of ownership is held by controlling owners for selected firms. This percentage is quite high. Managers hold on the average 18.83 percent shares and may have significant effect on board decisions. Average value for institutional shareholders is approximately 26 percent indicating the significant role of them. The average board size in Pakistan is almost 8 directors. The proportion of independent non-executive directors to total directors is equivalent to 42 percent; it implies that almost half of the directors on the board are independent ones and they can improve the effectiveness of the board. Board of directors meet approximately five times a year to discuss the affairs of the company.

Table 3: Correlation Matrix

| | MQ | ROA | OC | MSO | IO | BS | IND | DU | FM | SIZE | LEV | AGE |
|------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-------|-----|
| MQ | 1 | | | | | | | | | | | |
| ROA | 0.1547 | 1 | | | | | | | | | | |
| OC | -0.026 | -0.103 | 1 | | | | | | | | | |
| MSO | -0.039 | 0.055 | -0.008 | 1 | | | | | | | | |
| IO | 0.0376 | -0.044 | 0.0179 | -0.065 | 1 | | | | | | | |
| BS | 0.0891 | 0.0108 | 0.0399 | -0.01 | -0.128 | 1 | | | | | | |
| IND | 0.0086 | 0.1019 | -0.133 | -0.008 | -0.002 | -0.521 | 1 | | | | | |
| DU | -0.034 | 0.1224 | 0.1047 | 0.1308 | -0.167 | 0.2569 | -0.151 | 1 | | | | |
| FM | -0.004 | 0.1195 | -0.157 | 0.0635 | -0.008 | 0.0841 | -0.042 | 0.1168 | 1 | | | |
| SIZE | 0.0822 | 0.2634 | -0.052 | -0.023 | -0.017 | -0.041 | -0.052 | 0.0031 | 0.0812 | 1 | | |
| LEV | 0.0029 | -0.477 | -0.087 | -0.017 | 0.0642 | 0.2863 | -0.193 | -0.144 | -0.07 | -0.23 | 1 | |
| AGE | -0.009 | 0.1576 | -0.004 | 0.1105 | -0.194 | -0.06 | 0.0188 | 0.1082 | 0.2966 | 0.0229 | -0.16 | 1 |

Table 3 shows the degree of association between each variable. Correlation matrix represents the strength and direction of relationship among variables. From the table, it can be observed that IND and BS are showing highest correlation which is of -0.521 and they are inversely correlated with each other, while all other variables have very less correlation. The smallest correlation is observed between FM and MQ of -0.004. The above matrix also illustrate that none of the variable have correlation value above 0.70. Hence there is no issue of multicollinearity in the data.

Table 4: Dependent Variable –MQ

| Independent Variables | Coefficient | P- value |
|-----------------------|-------------|----------|
| OC | - 0.52 | 0.68 |
| MSO | - 0.35 | 0.70 |
| IO | 0.97 | 0.24 |
| BS | 37.81 | 0.01* |
| IND | 214.24 | 0.27 |
| DU | -104.19 | 0.04* |
| FM | -12.80 | 0.42 |
| SIZE | 56.12 | 0.15 |
| LEV | 16.74 | 0.80 |
| AGE | 1.97 | 0.99 |
| D-Household | -21.79 | 0.86 |
| D-Sugar | -11.48 | 0.89 |
| D-Pharma | - 65.80 | 0.55 |
| D- Chemical | 268.45 | 0.00* |
| Constant | -803.81 | 0.09 |
| R-Square | 0.2374 | |

Note: **and* indicates significance at the 5% and 10% level respectively

Table 4 indicates the results of pooled dummy regression using industry dummies to check the industry specific impact of selected variables on the performance of firms. The above table demonstrates that BS has a positive and significant association with MQ at 5% of significance level. The results are similar with the studies of Kathuria & Dash 1999 and Gull, Saeed & Abid (2013) and) who found significant positive relationship between board size and firm performance. Whereas DU has significant negative effect on MQ at the same level of significance. Previous studies of Chaghadari (2011) and Varshney, Kaul & Vasal (2012) shows negative relationship between duality and firm performance that are similar to result of this study.

Table 4: Dependent Variable –ROA

| Independent Variables | Coefficient | P- value |
|-----------------------|-------------|----------|
| OC | -0.10 | 0.01* |
| MSO | 0.02 | 0.80 |
| IO | 0.03 | 0.11 |
| BS | 0.50 | 0.30 |
| IND | 2.40 | 0.72 |
| DU | -1.33 | 0.44 |
| FM | -0.20 | 0.71 |
| SIZE | 0.77 | 0.51 |
| LEV | -12.87 | 0.00* |
| AGE | 4.85 | 0.20 |
| D-Household | -0.58 | 0.89 |
| D-Sugar | 5.38 | 0.06** |
| D-Pharma | 15.21 | 0.00* |
| D- Chemical | 14.16 | 0.00* |
| Constant | -3.06 | 0.83 |
| R-Square | 0.61 | |

Note: **and* indicates significance at the 5% and 10% level respectively

The results in Table 4 reveal that OC and LEV has negative and significant relationship with ROA like previous findings. The empirical results of different researchers such as Shah, Butt & Saeed (2011) and Tsegba & Herbert (2013) evidenced negative and significant association between OC and firm performance are in line with the results of this study. Similarly the results produced by Ng et al. (2008), Hu and Izumida (2008) and Perrini et al. 2008) are associated with the empirical evidences produced in our study.

5. Conclusion

On the basis of empirical evidence provided in this study, the results with Marginal Q indicates that the correlation between CEO duality and firm performance is significant and negative and thus we have accepted H_6 . Previous studies are also in line with our findings that dual role of CEO reduces the firm performance in Pakistan. Chaghadari 2011: Varshney, Kaul and Vasal, 2012) shows negative relationship between duality and firm performance that are similar to result of this study.

The results revealed that the association among size of Board and company performance is significantly positive. So hypothesis of Board size with firm performance is accepted. These results are same to the studies of Gull, Saeed & Abid, (2013) who suggested that Board size is positively associated with company performance. All other hypotheses are rejected due to insignificant results. On the other hand when analysis is done by taking ROA as the proxy of firm performance, results indicate that concentrated ownership and Leverage have significantly negative influence on corporation performance. Thus the Hypotheses of concentrated ownership and Leverage with firm performance is accepted Meanwhile Tsegba and Herbert (2013) Suggested that company performance is negatively influenced by the concentrated ownership and hence provide the support to our findings. Similarly the results produced by (Ng et al, 2008; Hu and Izumida 2008; Perrini et al 2008) of leverage correlate with the empirical evidences produced in our study.

Furthermore the analysis is being carried out by taking the dummy variables of industries. The purpose of this analysis is to found whether particular industry has the influence on the parameters. Results of dummies of Pharmaceutical, chemical and sugar sectors found that all three variables have significantly positive impact on firm performance.

6. Recommendations and Policy Implications

Based upon the conclusions drawn in this study it is suggested that by emphasizing the board size, firm size, independent directors, and frequency of meetings and age of the firm the performance of the firm can be enhanced. In order to survive in the competitive environment and to sustain in unforeseen environment companies need to focus on these parameters of corporate governance. In order to avail these benefits businesses need to develop the policies for the enhancement of the above factors which in turn provide returns.

In Pakistan, the results indicated that ownership concentration, duality and leverage should be decreased in order to rise the firm performance. Furthermore managerial share ownership and institutional ownership have no effect on firm performance so firms do not need to pay attention to these factors.

This study is fruitful for both managers and academicians in respect to its findings. The firms can more focus on the variables which have positive effect on firm performance and thus can increase its market share. The researchers can expand this study by investigating more factors affect the corporate governance and in return affecting the firm performance.

This study has some limitations like data were not collected from all the sectors due to time constraints. The study conducted on the non- financial sector of Pakistan and the financial sectors is neglected. Similarly we were not able to focus on all the factors of corporate governance which may also have significant impact on firm performance.

More contributions can be added to study the effect on firm performance by including other variables which may have significant impact on firm performance. Moreover a comparative study can also be conducted between the financial and non-financial sectors of Pakistan.

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