



RESEARCH PAPER

**Corporate Governance, Firm Attributes and Financial Performance:
Evidence from Pakistan**

Dr. Amna Noor¹ Muhammad Farooq² Kiran Farooq³

1. Assistant Professor, School of Business Management and Administrative Sciences, The Islamia University of Bahawalpur, Bahawalpur-Pakistan
2. PhD student in Finance, School of Business Management and Administrative Sciences, The Islamia University of Bahawalpur, Bahawalpur-Pakistan
3. Institute of Business and health Management, Dow University, Karachi -Pakistan

PAPER INFO

ABSTRACT

Received:

September 18, 2019

Accepted:

December 25, 2019

Online:

December 31, 2019

Keywords:

Corporate
Governance,
Firm
Performance,
Firm Size

**Corresponding
Author:**

nasreen.ier@pu.ed
u.pk

This study aims to investigate the well-established governance-performance relationship for a sample of 201 Pakistan Stock Exchange (PSX) listed firms over the period of 2010-2018 in the context of an important firm characteristics i.e. firm size. Sample firms categorized into small and large size based on total assets. Firm performance measures through ROA, ROE, and Tobin's Q. Panel econometrics techniques namely fixed effect model and random effect model applied to bridge the relationship between CG and firm performance after confounding effects of firm size, leverage, and firm age. Large firms have higher profit which endorses the size effects benefits enjoying by big firms than smaller firms. Furthermore, large firms better implemented the governance code than small firms. Overall CG remains significant towards accounting return (ROA) and market measures (Tobin's Q) but remains valueless in terms of return on equity (ROE). In the perspective of firm size, larger firms got enriched with higher profit through better implementation of governance mechanism than smaller firms which remains deprived from this values enhancing effect of corporate governance. Results suggest to strengthen the governance mechanism in smaller firms too, to reap the benefits of CG in terms of higher profitability

Introduction

This study aims to investigate governance-performance relationship in the context of an important firm characteristics i.e. firm size. Firm size is an important instrument that determines the kind of relationship firms enjoy in its internal and external operating environment (Babalola & Abiodun, 2013). Multinationals and conglomerate increasing influence witnessed what role does size play in today's

corporate environment. Big firms have more competitive power by virtue of greater market share, high capital; hence remain profitable with competition (Bayyurt, 2007). Papadogonas (2006) argues that large firms enjoy economies of scale by virtue of better negotiate interest rate, better rebate due to large buying, hence enjoy higher profit than smaller firms.

Corporate governance (CG) occupy a prominent position in organization's success as it paved the way towards achieving social and financial goals (Sadaf et al., 2015). In OECD principles of CG, 2004, it is a mechanism for establishing goals and objectives of the organization and means to accomplish these goals and objectives. Comprehensively CG defined mechanism, policies, rules & regulations framed by regulatory bodies to safeguard the interest of minority capital providers, entire stakeholders and attain organization's goal as well. The true implementation of CG among firms helps these firms in specific and country, in general, to attract foreign investment.

The CG-firm value association is under review by researchers since long time. Researchers agree on the point that good CG practices are value increasing (Johl et al., 2016) through reducing the information gap between resource handler and the ultimate owner of these resources i.e. shareholders, keep aligning the interest of both ends at one page and through increasing managerial efficiency (Audoussef-Coulier et al., 2016). The inauguration of Sarbanes-Oxly act, 2002 increases the effectiveness of CG to decreasing agency cost and creates firm's value. Existing literature not proves governance-firm performance relationship in one direction. Certain scholars conclude this relationship inconclusive (Hermalin & Weisbach, 1991). Some researchers support the effective CG as it leads the firm performance (Bebchuk et al., 2009), while some found mixed or no association between these two (Lehn et al., 2007). However, Gompers et al., (2003) and Cornett et al., (2009) considered this relation is endogenous nature which needs more attention by researchers.

Firms have varying the degree of CG implementation capacity, as each has distinct resources. Firm size theory argues that large firms have equipped with better resources than small firms. They are in better position to implement governance codes to reap the benefit than smaller firms. Further large firms are actively monitored by external debt market, more conscious about stock performance and have a greater check by regulators, hence more conscious about its performance. Since CG is an effective channel to truly manage and utilize the resources and raise firm performance. Hence, large firms more conscious about the implementation of CG to keep satisfying the shareholders as well as stakeholders. This varying implementation level of CG among large and small firms put impact on profitability differently as well.

The rest of the paper is managed as follows: review of the literature described in section 2, section 3 covers research methodology, section 4 devoted to analyzing the results, and conclusion presented in section 5.

Literature Review

CG is a global phenomenon effecting firm's financial performance, yet this concept remained absence from any accepted theoretical background till date (Larcker et al., 2004). Prominent theories like resource dependency theory (Pfeffer & Salancik, 1978), institutional theory (Suchman, 1995), stewardship theory (Donaldson & Davis, 1989), stakeholder's theory (Elward Freeman, 1984), the social contract theory (Hobbes, 1651) and the agency theory (Jensen & Meckling, 1976) have taken center stage to underpin CG.

The positive association between CG and value of the firm is not a refuting fact. CG is the main prop for firm's value plummeting agency cost (Shamsudin et al., 2018). CG can be implemented with the help of different apparatus like audit, board, and ownership structure that will abate agency cost and boost firm value (Fernando, 2011). Voluminous empirical work has been done so far on the association between CG and performance of the firm and concluded inconclusive association between these two. Researchers like (Brown & Caylor, 2008; Rashid et al., 2018) found positive association between governance and firm performance; while researchers like Yasser (2011) found mixed results; but Bhagat & Black (2001) and Latif et al., (2013) fails to find any association between the two. However, Gompers et al. (2003) suggested that association between CG and the value of firm is endogenous which need to be addressed more comprehensively and rigorously.

Nazir and Talat (2018) emphasis the role of an AC in the internal and extrinsic auditing, risk management and financial reporting process. Menon & Williams (1994) claimed that independent and active AC reduces fraud and misleading reporting process. Arsalan et al., (2014) mentioned that the independent AC improves the efficiency of audit reports and enhance firm performance.

Extant literature claims that board of director mechanism is essential for value of the firm (Latif et al., 2013). The Board of directors is responsible to monitor the management and provide an aid by way of vision and strategies to management. The existing studies have discovered mixed evidence on the relationship between board structure mechanism and firm performance. The agency theory and resource dependency theory argued appropriate board size to counter agency cost and provide necessary resources to the organization (Jackling & Johl, 2009), while Jensen (1993) counter above arguments by claiming that it causes agency cost, gives rise to free rider problem, extra ordinary delay in decision making. Presence of independent directors in board is increased after a series of corporate frauds (Arora & Sharma, 2016).

Insider ownership plays a crucial role in enhancing the value of any firm as this is the way of transforming owners and manager's distinct interest into similar interests (Nazir & Afza, 2018). Associated Co. ownership too has remarkable impact on firm performance. Associated Co ownership leads towards higher financial performance through dealing with agency conflict and mitigating information asymmetry between shareholders and the managers (Nazir & Afza, 2018). Moreover, associated Co contributed in firm's performance by way of providing skills and resources to group companies.

In Pakistani context, there are few studies that tested this relationship between CG and firm performance. Results of these studies showed mixed findings. Most recent study done in Pakistani context by Nazir & Afza, (2018) and their findings shows that CG is positively and significantly impacted on firm performance by keep mitigating the agency cost and controlling manager's opportunistic behavior. Focusing on CG variables Muhammad et al., (2016) took study on 80 non-financial firms for the period 2010 to 2014. They discovered that board size and the AC positively linked towards profitability measures while board composition, CEO duality negatively associated toward RAO & ROE. Yasser et al., (2011) find a positive association of all three governance measures with ROE and PM. Present study is the first of its nature that undertook individual components as well as composite index of CG and gauge the impact of the same on firm's profitability.

Material and Methods

Data Collection and Sample Selection

This survey covers all non-financial PSX listed firms during period 2010 to 2018. Financial firms skip from the sample because of the greater variation in financial reporting, accounting rules and regulations. Such differences may impact on accuracy of accounting measures (Shahwan, 2015). Our final sample consists of 201 non-financial firms, representing 34% of the total population of PSX listed firms during study period.

Definitions of Variables and Measurement

The measurement and operationalization of studied variables shown in table 1 presented below.

Table 1
Description of variables used in the study

Notation	Full Variable Name	Description
Firm Performance Measures		
ROA	Return on assets	Ratio of net income to average total assets
ROE	Return of equity	Ratio of net income to average shareholder's equity

Tobin's Q	Growth Opportunities	Market value of Equity/Book value of assets
Audit Structure Measures		
AC size	Audit committee size	Internal audit committee size measure by AC size/no of directors in board of directors
AC ind	Audit committee independence	Fraction of non-executive directors in AC
AC activity	Audit committee activity	No. of AC meeting held in financial year
EAQ	External audit quality	Dummy variable. "1" if firm audited by 5 big auditing firms or "0" otherwise
Board Structure Measures		
B size	Board size	No. of directors in Board of directors
B ind	Board independence	Fraction of non-executive directors in Board of directors
B activity	Board activity	No. of board meetings during financial year
CEO duality	CEO duality	Dichotomous variable. 1 of duality or 0 otherwise
Ownership Structure Measures		
MNG own	Managerial ownership	Fraction of shares held by directors, managers, and their immediate family members
Inst own	Institutional ownership	Fraction of shares held by institutions
Frgn own	Foreign ownership	Fraction of shares held by Foreign shareholders
Ass own	Associated ownership	Fraction of shares held by associated company including parent and subsidiary organization
Composite Governance Index		
CG Index	Corporate Governance Index	A composite governance index based on 29 governance provisions covering audit, board, compensation, and ownership structure of firms. Higher governance index shows better governance quality and vice versa.
Control Variables		
F size	Firm size	Measured by natural log of total assets
Lev	Leverage	Debt/total assets
F age	Firm age	Incorporation year-present year

This study aims to analyzing the impact of the CG measures on firm's financial performance. In order to assess this association between firm performance and CG, model can be written as;

$$FP_{it} = \beta_0 + \beta_1(AC\ Size_{it}) + \beta_2(AC\ Ind_{it}) + \beta_3(AC\ Activity_{it}) + \beta_4(EAQ_{it}) + \beta_5(Firm_Size_{it}) + \beta_6(LVRG_{it}) + \beta_7(FAge_{it}) + \varepsilon_{it} \dots \dots \dots (1);$$

$$FP_{it} = \beta_0 + \beta_1(B_Size_{it}) + \beta_2(B_Ind_{it}) + \beta_3(B_Activity_{it}) + \beta_4(CEO_Duality_{it}) + \beta_5(Firm_Size_{it}) + \beta_6(LVRG_{it}) + \beta_7(FAge_{it}) + \varepsilon_{it} \dots \dots \dots (2);$$

$$FDC_{it} = \beta_0 + \beta_1(MNG_Own_{it}) + \beta_2(Inst_Own_{it}) + \beta_3(Foreign_Own_{it}) + \beta_4(Asso_Own_{it}) + \beta_5(Firm_Size_{it}) + \beta_6(LVRG_{it}) + \beta_7(FAge_{it}) + \varepsilon_{it} \dots \dots \dots (4);$$

After analyzing the impact of individual component of CG mechanism, a comprehensive governance mechanism is developed to investigate the impact of the same on firm performance with the help of following model;

$$FP_{it} = \beta_0 + \beta_1 (CG\ Index_{it}) + \beta_2(Firm_Size_{it}) + \beta_3(LVRG_{it}) + \beta_4(FAge_{it}) + \varepsilon_{it} \dots \dots \dots (5);$$

Results

Descriptive Statistics

Table 2 demonstrates the descriptive statistics of studied variables related to CG and firm performance. Result shows that average return on the assets of sample firms is 7% while the Return on equity, on average is 13.1%. The mean value of Tobin’s Q is .974 with minimum of .567 and maximum of 24.618. This mean value of Tobin’s Q is near to acceptance level i.e. 1. Sample firms have acquired 24% assets through external financing as mean value of leverage is 24%. On average, sample firm’s age is 38 years with a minimum age of 3 years and a maximum of 157 years. Audit committee size on average is 43% of board size. 87% of audit committee members are from independent directors which show a good sign among sample firms. There are 43% boards members are independent directors. On average, there are five board meeting held in a year with the minimum 4 and a maximum of 16 meetings held in a financial year. Sample firms have 20% managerial ownership, 10% institutional ownership, and 5% ownership stake belongs to foreign shareholdings. Associated ownership ranges from 0% to 95% with a mean value of 31%. Governance index mean value is 16 with a range from 10 to 22.

Table 2
Descriptive Statistics

Variable	Obs	Mean	Std.Dev.	Min	Max
ROA	1806	.07	.163	-.727	3.619
ROE	1806	.131	.626	-10.942	10.918
Tobin’s Q	1806	.974	1.792	0.567	24.618
F Size (PKR Million)	1809	19542.88	41691	22.195	395943
LVRG	1806	.237	.199	0	1.213
Fage	1806	38.264	19.438	3	157

AC Size	1809	.43	.079	0.250	0.667
AC Ind	1809	.873	.172	0.333	1
AC Activity	1806	4.175	.574	3	7
EAQ	1799	.551	.495	0	1
B Size	1809	8.173	1.660	7	14
B Ind	1809	.425	.282	0.056	0.928
Duality	1809	.16	.364	0	1
B Activity	1809	5.547	2.509	4	16
MNG Own	1809	.203	.24	0	.906
Inst Own	1809	.098	.0995	0	0.45
Foreign Own	1809	.053	.145	0	.947
Ass Own	1809	.315	.305	0	.947
CG Index	1809	16.284	2.775	10	22

Table 3
Mean differences for small and large firms

Variables	Small Firms		Large Firms		Mean Difference	t-value
	Mean	SD	Mean	SD		
ROA	0.051	0.104	0.09	0.203	-0.039	-5.14***
ROE	0.089	0.656	0.174	0.59	-0.085	-2.8941***
Tobin's Q	0.779	1.531	1.168	2.001	-0.389	-4.629***
AC Size	0.43	0.069	0.43	0.097	0.001	-0.002***
AC Ind	0.858	0.18	0.887	0.18	-0.029	-3.4636***
AC Activity	4.061	0.42	4.327	0.931	-0.266	-7.8355***
EAQ	0.436	0.496	0.705	0.456	-0.269	-11.9646***
B Size	2.039	0.132	2.143	0.224	-0.104	-11.9768***
B Ind	0.412	0.267	0.446	0.302	-0.034	-2.5825***
Duality	0.17	0.376	0.109	0.312	0.061	3.7503***
B Activity	5.171	1.678	5.922	3.081	-0.751	-6.4371***
MNG Own	0.244	0.245	0.149	0.225	0.095	8.5202***
Inst Own	0.097	0.101	0.106	0.112	-0.009	-1.7995***
Foreign Own	0.035	0.104	0.071	0.174	-0.036	-5.44***
Ass Own	0.265	0.279	0.387	0.319	-0.122	-8.6302***
CG Index	0.541	0.475	0.593	0.087	-0.052	-11.8156***

Note: *** Denotes level of significance at 1%.

The present study also conducted independent sample t-test to analyze the governance-profitability relationship on the basis of different study variables. Results presented in table 3, show that larger firms have higher profitability by all means than smaller firms. Governance practices too more strengthen and implemented in large firms than the opponent. These differences are statistically

empirical at 1% level. These findings support the firm size theory. As large firms have required needed financial resources, so truly implement the governance mechanism. Furthermore, large firms more conscious about stock performance, more closely monitored by regulators, and often visit to debt market to get needed funds to meet business need, hence more strengthen governance structure in firms.

To test the multicollinearity problem among explanatory variables, Pearson correlation matrix formed. These results, however, have not been shown in the table, as the main focus of present study to investigate the impact of CG on firm performance in Pakistan. Following Andersen et al., (1990), any correlation coefficient value above 0.7 witnessed presence of multicollinearity among explanatory value. As results shows, there is not any value above 0.7, so there is no multicollinearity exists in our model.

Our dataset has both time-series and cross-section observation that fit for panel data. To diagnose which panel effect (between fixed and random) shows better estimation results for this study, we got help from Hausman test. The Hausman test was established with null hypothesis that random effect model is the more appropriate for the regression model.

Table 4 shows the regression results to describe the impact of the corporate governance on firm performance, segregated by the firm size. Table 4 shows the regression results to describe the impact of the CG on firm performance, segregated by the firm size. AC size is first variable of interest of AC structure which shows positive association with all measure of firm's profitability. This association proves to be insignificant for small firm size but for larger firms AC size has significant effect on return on equity and Q value. For large firms, more AC members is essential to better monitor the management; hence significantly positively associated in larger large firms to return on equity and Q value of the firm. Likewise, AC independence proves to be significance association with Tobin's Q but the same was not true in case of ROA and ROE. Further, insignificant relationship between AC meeting and profitability by all measures shows that AC meetings prove to be ineffective about its role regarding minimization of agency problem and information asymmetry as theory suggested.

Board structure is second important governance mechanism. Literature strongly argued that board governance mechanism enhances firm profitability and market value (Baghat and Black, 1999; Nazir, 2016). Overall board size proves to be negative association in terms of profitability and this negative association proves to be significant in case of Tobin's Q. Board size has a significant pragmatic impact on firm's market value for small firms as well as all firms' data. For large firm, board size has negative influence on firm market value. This negates the resource dependency theory that large board has association to external environment that enable to provide easier access to resources. Board independence proves negative association for all sample firms as well as subsamples. This relation proves to be significant with ROA and ROE for all firm data that shows weak governance

structure in Pakistani context. This negative relation shows that independent director has not so much information and knowledge of the firm, hence cannot perform their function in true spirit, which eventually leads to negative firm performance. CEO duality shows negative relation with entire profitability measures. This negative relation supports our hypothesis that duality leads to inversely associated with profitability. For small firms, duality has significant negative relation with ROA. The same have positive association with large firms as well as all firms. This negative relation with small firms shows that in small firm's duality leads to entrenchment effect.

Table 4
Regression results of impact of CG on firm performance

Variable	Small Firms			Large Firms			All Firms		
	FEM	FEM	FEM	FEM	FEM	FEM	FEM	FEM	FEM
	ROA	ROE	Tobin's Q	ROA	ROE	Tobin's Q	ROA	ROE	Tobin's Q
AC Size	0.040 (0.517)	0.049 (0.687)	0.039 (0.818)	0.047 (0.256)	0.309*** (0.001)	0.685*** (0.000)	0.052 (0.135)	0.168* (0.021)	0.339** (0.007)
AC Ind	-0.012 (0.625)	0.025 (0.610)	-0.005 (0.936)	0.007 (0.681)	0.037 (0.350)	0.235*** (0.000)	0.001 (0.959)	0.008 (0.788)	0.103* (0.030)
AC Activity	0.002 (0.745)	-0.001 (0.991)	-0.004 (0.747)	-0.001 (0.961)	-0.004 (0.525)	-0.005 (0.607)	0.001 (0.875)	-0.003 (0.576)	-0.004 (0.611)
EAQ	-0.076 (0.083)	-0.093 (0.357)	-0.327* (0.013)	-0.041* (0.023)	-0.124** (0.003)	-0.051 (0.415)	-0.038* (0.034)	-0.085* (0.034)	-0.115* (0.048)
B Size	-0.004 (0.467)	-0.011 (0.281)	0.072*** (0.000)	0.001 (0.691)	0.002 (0.807)	-0.007 (0.658)	-0.003 (0.374)	-0.007 (0.263)	0.034*** (0.001)
B Ind	-0.055 (0.087)	-0.098 (0.155)	0.048 (0.574)	-0.027 (0.251)	-0.139* (0.014)	0.008 (0.929)	-0.039* (0.039)	-0.093* (0.031)	0.080 (0.196)
B Activity	-0.001 (0.943)	0.001 (0.882)	0.006 (0.361)	0.001 (0.457)	-0.002 (0.475)	-0.010* (0.028)	0.003 (0.799)	-0.001 (0.577)	-0.006 (0.135)
Duality	-0.0219* (0.026)	-0.017 (0.416)	-0.037 (0.163)	0.009 (0.277)	-0.007 (0.708)	-0.009 (0.763)	0.006 (0.928)	-0.004 (0.764)	-0.012 (0.562)
Mng Own	-0.001 (0.537)	-0.001 (0.189)	-0.002 (0.054)	-0.001 (0.056)	-0.003* (0.005)	0.004* (0.018)	-0.003 (0.289)	-0.001* (0.049)	-0.000 (0.969)
Inst Own	-0.001 (0.472)	-0.002 (0.106)	-0.003 (0.104)	0.001 (0.822)	-0.001 (0.813)	0.002 (0.102)	0.001 (0.696)	-0.003 (0.642)	0.001 (0.735)
Frgn Own	-0.000 (0.531)	0.001 (0.701)	0.002 (0.609)	0.001* (0.044)	0.001 (0.200)	0.001 (0.781)	0.006 (0.161)	0.009 (0.294)	-0.001 (0.605)
Assoc.Own	-0.002** (0.002)	-0.003** (0.004)	-0.003* (0.029)	-0.001 (0.487)	-0.001 (0.150)	0.002* (0.044)	-0.004 (0.115)	-0.011 (0.062)	0.001 (0.483)
F Size							-0.058 (0.582)	0.043 (0.055)	-0.050 (0.147)
Lev	-0.085*** (0.000)	-0.207*** (0.000)	-0.133* (0.016)	-0.193*** (0.000)	- 0.268*** (0.000)	-0.553*** (0.000)	-0.135*** (0.000)	- 0.233*** (0.000)	-0.339*** (0.000)
F age	-0.008*** (0.000)	-0.018*** (0.000)	0.0316*** (0.000)	-0.001 (0.347)	-0.006** (0.003)	0.0358*** (0.000)	-0.003** (0.002)	- 0.012*** (0.000)	0.038*** (0.000)
_cons	0.474*** (0.000)	1.047*** (0.000)	-1.008*** (0.000)	0.1711** (0.002)	0.580*** (0.000)	-1.155*** (0.000)	0.300** (0.002)	0.373 (0.063)	-0.788* (0.014)

N	911	910	910	898	898	898	1809	1809	1809
adj. R-sq	0.2134	0.0534	0.2914	0.1339	0.067	0.2121	0.1367	0.1234	0.098
p-values in parentheses		p<0.05,	*p<0.01	**p<0.001					

Ownership structure proves an insignificant association with firm performance. Managerial ownership, the first variable of ownership structure shows negative relationship in all profitability measures but it proves to be significant in terms of ROE. Results support the agency theory that claims that increase managerial shareholding leads to entrenchment effect by the management thus decrease firm performance. Institutional shareholding proves insignificant negative impact on firm performance. This finding support the entrenchment hypothesis. Foreign ownership like institutional shareholdings proves insignificant positive relationship with firm performance but this relation remains significant in term of accounting profit in large firms. Results support earlier findings of Ganduz & Tatoglu (2005), who studied Turkish firm and proves positive linkage with firm performance. Greenway et al., 2014 shows this positive impact because foreign investor brings knowledge and upgraded technology that enhance firm performance. Findings are match with previous findings done in Pakistani context like Ahmed at al., (2012).

Table 5
Regression result the impact of CG index on firm performance

Variable	Small Firms			Large Firms			All Firms		
	FEM	FEM	FEM	FEM	FEM	FEM	FEM	FEM	FEM
	ROA	ROE	Tobin's Q	ROA	ROE	Tobin's Q	ROA	ROE	Tobin's Q
CG Index	0.008 (0.359)	-0.015 (0.942)	0.493 (0.300)	0.113*** (0.000)	0.463** (0.009)	1.503* (0.041)	0.023*** (0.000)	-0.141 (0.359)	-0.756* (0.077)
F Size							-0.007 (0.662)	0.073 (0.155)	-0.082 (0.325)
Lev	-0.043*** (0.000)	-0.121 (0.283)	-1.041*** (0.000)	-0.009 (0.268)	0.565*** (0.000)	0.216 (0.637)	-0.022*** (0.000)	-0.239** (0.001)	-1.966*** (0.000)
F age	0.0623 (0.173)	0.017 (0.876)	-0.024 (0.330)	0.022 (0.011)	-0.051 (0.650)	0.009 (0.039)	0.013 (0.000)	-0.017 (0.308)	0.045 (0.044)
_cons	-0.017 (0.261)	-1.401*** (0.000)	1.312 (0.113)	0.025 (0.526)	-1.417** (0.008)	-1.636 (0.457)	-0.040*** (0.000)	-0.834*** (0.000)	-0.657 (0.203)
N	911	910	910	898	898	898	1809	1809	1809
adj. R-sq	0.1835	0.0629	0.0904	0.1339	0.067	0.0875	0.105	0.0711	0.0765

p-values in parentheses

="* p<0.05 ** p<0.01 *** p<0.001"

Table 5 shows the impact of composite governance index on firm's profitability. Overall governance index shows significant positive relationship in term of accounting profit and Tobin's Q. In large firms this positive relationship between governance index and profitability remains significant but this association remains insignificant in case of small firms. These findings strengthen earlier

results that large firms have sufficient resources and have motivation to implement governance in true spirit and hence reap the benefits through higher profitability. This positive relationship of governance index towards firm profitability endorses the findings of some earlier studies like Black (2001), Gompers et al (2003), (Nazir & Afza, 2018).

As for control variables are concerned, leverage shows significant negative findings towards firm's profitability. This negative association shows that low leveraged firms have better opportunity to tap investment opportunity that resultantly increase firm performance. Firm size shows positive impact towards firm performance claim this positive impact by virtue of economies of scale used by large firms and that large firms have better negotiation position. However, these findings against the notion that smaller firm having better and quick decision process and no communication problem as compare to large firms, hence quickly response towards firm micro environment.

Conclusion

This survey enrich the previous literature by emphasize the role of CG elaborated through AC structure, board structure, and the ownership structure on the performance of firm that measured through ROA, ROE, and Tobin's Q on PSX listed firms for the period 2010 to 2018.

The result shows that AC structure variables (AC size, AC independence, and AC activity) positively linked with performance of firm. Size of AC is significant positive relation towards firms ROE and Tobin's Q in the context of large firms only. It seems for large firms, AC size play their crucial role to monitor management, hence increase firm value and as well as higher value place by external market participant. Board structure measures depict negative impacts on profitability. These findings congruent the findings of Jensen (1993) who claimed larger board size raise agency cost, free rider problem and become causes delay in decision makings. Board independence and board activity negate positive influence towards firm performance. This negative link favor this argument in Pakistani's firm board of directors, independent director hold very limited fraction hence become unable to put effective check on board of director's self-serving attitude. The positive impact of the institutional ownership and foreign ownership support the active monitoring hypotheses. Institutional shareholders and foreign shareholders have capability and resources to effectively monitor management, thus prevent manager from inefficient utilization of firm resources.

Our results contributed to the literate with findings that overall PSX listed firms lack true governance practices; hence there is a need to strengthen the governance practices among listed firms. Secondly on the basis of firm size, it was found that larger firms are better about the implementation of governance practices than smaller firms. There is a need to strengthen the governance practices in smaller firms too. These findings provide suggestion to regulatory authorities to emphasis on governance codes on PSX listed firms in general but on small firms in particular.

References

- Arslan, M., Zaman, R., & Malik, R. K. (2014). Impact of CEO Duality and AC on Firm Performance: A Study of Oil & Gas Listed Firms of Pakistan. *Research Journal of Finance and Accounting*, 5(17), 2222-1697. <http://dx.doi.org/10.2139/ssrn.2515067>
- Audoussert-Coulier, S., Jeny, A., & Jiang, J. (2016). The validity of auditor industry specialization measures. *Auditing: A Journal of Practice and Theory*, 35(1), 139-161. 133-148.
- Bebchuk, L., Cohen, A., & Ferrell, A. (2009). What matters in CG? *Review of Financial Studies*, 22(2), 783-827.
- Bhagat, S., & Black, B. (2001). Non-Correlation between Board Independence and Long-Term Firm Performance. *The Journal of Corporation Law*, 27(2), 231- 273.
- Brown, L. D., & Caylor, M. L. (2006). CG and firm valuation. *Journal of Accounting and Public Policy*, 25(2), 409-434.
- Donaldson, L., Davis, J.H., (1989). CEO governance and shareholder returns: agency theory or stewardship theory. In: *Paper Presented at the Annual Meeting of the Academy of Management*. Washington, DC.
- Fernando, A.C. (2011). *CG: Principles, Policies and Practices*, Pearson Education India.
- Jackling, B. & Johl, S. (2009). Board structure and firm performance: evidence from India's top companies", *CG: An International Review*, Vol. 17 No. 4, pp. 492-509.
- Giftci, I., Tatoglu, Wood, Demirbag, & Zaim. CG and firm performance in emerging markets: Evidence from Turkey. *International Business Review*, 28, 90-103.
- Hermalin, B. E., & Weisbach, M. S. (1988). The determinants of board composition. *RAND Journal of Economics*, 19(4), 589-606. <https://doi.org/10.2307/2555459>
- Jensen, M. and Meckling, W. (1976). Theory of the firm: Managerial behaviour, agency costs and ownership structure, *Journal of Financial Economics*, Vol. 3 No. 4, pp. 305-360.
- Johl, S., Khan, A., Subramaniam, N., & Muttakin, M. (2016). Business group affiliation, board quality and audit pricing behaviour: Evidence based on Indian companies. *International Journal of Auditing*, 20(2),
- Larcker, D.F., Richardson, S.A. & Tuna, I. (2005). *How important is CG?*, available at SSRN: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=4595821 (accessed 1 December 2012).

- Latif, R. A., Kamardin, H., Mohd, K. N. T., & Adam, N. C. (2013). Multiple directorships, board characteristics and firm performance in Malaysia. *Management*, 3(2), 105–111.
- Lehn, K., Patro, S., & Zhao, M. (2007). Governance indexes and valuation: Which causes which? *Journal of Corporate Finance*, 13(5), 907–928.
- Nazir, M.S. (2016). *The Relationship between CG and Firm Value: Role of Discretionary Earnings Management*. Unpublished PhD Dissertation, Department of Management Sciences, COMSATS Institute of Information Technology, Pakistan.
- Nazir, MianSajid&Afza, Talat. (2018). Does Managerial Behavior of Managing Earnings Mitigate the Relationship between CG and Firm Value? Evidence from an Emerging Earket. *Future Business Journal* 4 (2018) 139-156
- Rashid, M. K., Ali, A., &Magsi, H. (2018). Ownership, governance and firm performance in Pakistan. *Salu-Commerce Economics Review*, 3(3), 44–53.
- Sarbanes-Oxley Act. (2002). *Public Company Accounting Reform and Investor Protection*, Public Law No. 107-204: US Congress.
- Shamsudin, S. M., Abdullah, W. R. W., & Osman, A. H. (2018). CG practices and firm performance after revised code of CG: Evidence from Malaysia. State-of-the-art theories and empirical evidence (pp. 49–63). Singapore: Springer.
- Shahwan, T.M. (2015). The effects of corporate governance on financial performance and financial distress: evidence from Egypt. *Corporate Governance: The International Journal of Business in Society*, Vol 15 No. 5, pp. 641-662.
- Shamsi, A. F., Bashir, R., &Panhwar, I. A. (2013). CG in Pakistan: An empirical study. *Transnational Corporations Review*, 5(3), 46–59.
- Uwuigbe, U., &Olusanmi, O. (2012). An empirical examination of the relationship between ownership structure and the performance of firms in Nigeria. *International Business Research*, 5(1), 208–215.