THE IMPACT OF BOARD CHARACTERISTICS ON MARKET VALUE OF FIRM: EVIDENCE FROM PUBLIC LIMITED COMPANIES, PAKISTAN

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ABSTRACT

Corporate governance means techniques used to run a company and protect the rights of every party having interest in the firm. These parties may be management, stockholders, government, employees, customers, suppliers, debtors, banks, creditors, society or anyone else. Main objective of the research was to know the impact of board characteristics on the performance of the firm. In order to know individual impact of corporate governance issues on Firm performance, simple regression was used, because there was only one dependent variable and one independent variable. Results of this study indicate that CEO duality is causal factor of Tobin's Q and return on assets but has no significant relation with return on equity. Board meetings and board size are highly significantly and positively correlated with the performance of firm (return on equity).

Keywords: Board Composition, Firm Market Value, Listed Companies, Pakistan.

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1. Introduction

Agency theory describe the conflict that exist in corporations mostly, as management is separate from owners of company, so there is conflict of interests of manager and owner. Owner wants long run increase in shareholder's wealth; on the other hand manager wants short run increase in profit. Manager boost up profit by using some accounting techniques, for example no provisions for bad debts are recorded that will decrease expenses and profit will be increased, this increase in profit is a source of increase in salary and promotional chances. This is agency problem for a company; this can be solved by corporate governance provisions. Corporate governance has many provisions, as appointment of directors, appointment of CEO, audit committee, board meetings. These all provisions are followed in order to remove the agency problems in corporations.

For many years, security and exchange commission of Pakistan has been working to eliminate these unfair and aggressive practices followed by management in order to mislead financial statements. But SECP cannot perform well in Pakistan; there were many financial frauds and evidences in Pakistan for no application of corporate governance practices. For example privatization of Pakistan telecommunication limited, deal has same characteristics as buy one and get one free, three entities were privatized, 1) ufone 2) PTCL 3) paktel but pries was equal to the assets of only one entity PTCL, two projects were given as free of cost. There are many other evidences for such financial losses and frauds in Pakistan. Deal of this corporation was closed on 2.6 billion dollars, but ufone individually has assets of 6 billion dollars, it was one of the greatest financial scandals in Pakistan. Furthermore price was settled on book value but not on market value of firm. After this deal purchaser Etisalat refuse to honor the deal, he was given secret prices discount 394 million (L. Dar et al., 2011).

Taj Company was also involved in poor practice of governance, it received deposits in illegal ways for 15 years, but there was no governance that could stop them from their illegal deposit collection process. After 15 years its fraudulent activities were stopped, Taj Company still owns liability of huge amount to the 25000 people. In the same way fraud of Mehran bank, crescent bank limited and Engro group of companies have financial scandals due to limitations of applications of corporate governance, in Pakistan there is need of corporate governance practices in order to remove these frauds.

Corporate governance is a term having different meanings in different countries, like in Germany it means all stakeholders (Chaudary et al., 2006).Corporate governance means techniques used to run a company and protect the rights of every party having interest in the firm. These parties may be management, stockholders, government, employees, customers, suppliers, debtors, banks, creditors, society or anyone else. Every party has some sort of interest in the profit of business, management wants in time salary, bonus and promotion. Supplier wants in time payment of their supplies. Government wants some portion of revenues in the form of tax. Society wants some sort of protection like environment free from pollution. Banks want in time payment of their loan and interest. Corporate governance is here to protect the rights of every party. Safdar A. Butt in his book corporate governance defines CG as a technique used to run a company and to protect the interests of all stakeholders individually and collectively. Twenty four provisions of corporate governance followed by institutional international research center, matters in order to protect all stockholders (Bebchuk et al., 2009).

In Pakistan there are a few researchers who conduct research on this topic and proved that corporate governance is a causal factor of valuation and financial performance of firm based on empirical evidence of food and textile sector Pakistan. The link between good governance and economic and social development has been well established in the last few decades. Although it is hard to have a precise definition of governance there is a wide consensus that good governance must lead to broad-based inclusive economic growth and social development. It must enable the state, the civil society and the private sector to enhance the well-being of a large segment of the population. If this definition is accepted then economic growth in Pakistan is likely to become unsustainable if a widespread perception persists that the majority of the population has not been gaining from recent growth. This perception, whether right or wrong, erodes political support for continuation of present economic policies and reforms.

CG protects the interests to every stakeholder in every business but this issue is sever in companies particularly business having separate entity (Winkler, 2004). Company is an artificial person created by law, having share capital and a common seal. Companies have different kinds, public limited companies, private limited companies, companies limited by shares, companies limited by guarantee and single man companies. In many companies management is totally separate from ownership and ownership is separate from management. Management is appointed

by the owners in order to protect their rights but unfortunately there are some agency problems. Agency theory exists where manager or worker works as an agent of shareholder or owner. Agency theory exists between the owner and manager. Here owner or principal is risk bearing but manager makes decision on behalf of owner but manager is not risk bearer. Agency problem is created when goals and desires of manager and owner conflicts and it is very difficult and expensive to verify and calculate this conflict. Some principles are involved in monitoring activity but agents make it difficult due to inefficient manager's behavior. Some shareholders have very minor portion of company capital. These are called minority shareholders, they have no right to monitor the management, they cannot be director due to having low portion of capital (Sanda et al., 2005). Manager boosts up short run profits in order to increase their salary and bonus but have no interest in wealth of organization. Agency problem is also burning issue of CG. To solve this problem shareholders elect directors but there are some problems in this pattern. In order to check the work of directors CEO is appointed.

Mostly companies are family owned that have monopoly of a family on the firm. Only the rights of this family are achieved other stakeholders are badly affected by this ownership style. Their rights are totally manipulated. Family owned businesses are those which are fulfilling these three options. Ownership style has impact on the profitability of firm. Family owned firms have low performance as compare to non-family owned businesses. Family owned businesses like unlevered firms, means low use of debt in capital structure pattern, unlevered firms have low profitability. Family owned businesses have also effect on dividend payout ratio and assets management ratio and solvency ratios of firm. A response from Pakistani firms, family owned firms have low implications of law. Family owned firms have less disclosure of their information on the website or in the form of annual report but on the other hand family owned firms have high level of profitability. It means there is positive relationship between the ownership concentration and profitability of firms (Javid & Iqbal, 2010).

Board meetings have a significant impact on the performance and market valuation of firm. Board characteristic represented by board meeting is an important dimension of board performance. Board meetings are negatively correlated with the market valuation of firm (Vafeas, 1999). Board meeting time is an important element for improving board performance (Conger et al., 1998). In the same way more outside directors on the board of firm demand more

meetings of board that is source of improving market valuation of firm (Hermalin & Weisbach, 1991).

2. Review of Literature

(Qadir et al., 2010) conducted research in Pakistan on manufacturing sector and concluded that BI, OC AND BS have positive relationship with FP (ROE) (Khaled Samaha a, 2012). Conducted research on ownership structure and performance of firm and proved that there is no significant relationship between the ownership structure and performance of firm because performance of firm is compensated in family owned business by solving agency problem (Hijazi & Tariq, 2006). conducted the research on determinants of capital structure and concluded that there is negative relationship between the firm size and growth, it means bigger the firm size less will be the use of debt in capital structure, positive relationship between the tangibility of assets and leverage of firm (it means more the use of fix assets in total assets more will be use of debt. At the end he concluded that more the growth of firm more will be the need of debt (funds can be acquired by using the debt).

Concentrated on the matter of legal provisions, corporate governance, firm performance and market valuations of firm and concluded that firms having more legal implications have more impact of corporate governance issues on firms performance and market valuation of firm (Klapper & Love, 2004). Board meetings are negatively related to the firm value. Due to this relation share prices declines (Vafeas, 1999). Board meetings have also impact on the value of firm. Board can be larger or small, small board has to pay less compensation and will increase firm value and firm performance. On the other hand large board will receive high compensation that will be source of decrease in profit. Lesser the profit lesser will be the dividend, lesser the dividend lesser will be value of firm. There is inverse relation between the value of firm and board size (Coles et al., 2008; Eisenberg et al., 1998; Mak & Kusnadi, 2005).

Review of corporate governance issues in Singapore and concluded that there is positive relationship between the corporate governance and performance of business. Using regression analysis they concluded that there is positive relationship between the firm size, corporate governance, ownership concentration and firm performance. Using regression analysis it was

also concluded that board structure ownership structure and capital structure have impact on firm performance. Corporate governance was also tested individually. Large firm use corporate governance principals more than small firms, small do not want to disclose their information to general public. Corporate governance issue (agency problem) doesn't exist in family owned and government owned business (Thompson & Hung).

Palanasam ysaravanan, (2006) conducted detail analysis of corporate governance characteristics and of company performance of family owned and non-family owned business in India and gives comments that ownership styles have great impact on the value of firms. For this purpose he used multiple regression, t test, and simple averages and correlations techniques to give the proof of impact of ownership style on the performance of business or value of firm. He concluded that there is significant effect on the value of firm due to change in style of ownership from family owned to nonfamily owned business.

Investigated the relationship of firm performance and corporate governance and reported that corporate governance matters in Pakistan. An evidence of KSE was taken that board composition; shareholding and ownership have impact on ROE. They finally concluded that Quality of corporate governance have positive and significant impact on firm performance (L. A. Dar et al., 2011). Investigation about the corporate governance code 2002 concluded that it improves firm's decision making process. Ownership structure significantly affect the firm performance (market value of firm Tobin's q) (Xu & Wang, 1999).

Firm performance and corporate governance, a case study of petrol and gas industry of Pakistan and give results that ROE and Board composition have no significant relation, negative relation between CEO status and audit committee and ROE but significant relationship, negative relation between the performance measures and CEO status and audit committee but CEO status has significant effect on FP (L. A. Dar et al., 2011). CEO duality is bad for the business, because it is against the agency theory. Agency theory suggests that CEO must be a separate person. Which may be favour of organization? On the other hand financial analyst suggests CEO duality must sustain in organization in order to save the cost of two different officers (Peng et al., 2007).

Firms with low Tobin's Q and high cash flow have more positive dividend initiation. Firms with better corporate governance have positive value; it is proved by different researchers in different

countries (Khaled Samaha a, 2012) (Andersson, 1999; Khaled Samaha a, 2012; N. Balasubramanian a, 2010; Wei-Xuan Li a, 4 August 2012). Family controlled business is hurdle for diversification of firm, which decrease the firm valuation. Diversification is a main sources for increasing firm valuation, thorough diversification firms can utilize its resources efficiently, it lacks in family controlled firms (Lien & Li, 2013). Corporate governance have a significant effect on the valuation of firm, board size is nativity correlated with the valuation of firm. CEO duality, audit committee, financial leverage, return on assets, insider's holdings and audit committee have a positive impact on the valuation of firm (Obradovich & Gill, 2013).

Corporate governance is overall causal factor of the market value of different firms in Korea. KCGI(Korean corporate governance index has statically strong impact on market value of firms (Black, Jang, & Kim, 2006). From the set of 24 corporate provisions followed by international inverters research center are correlated with the firm value and shareholders return. These provisions are negatively correlated with the firm value Tobin's q (L. Bebchuk et al., 2009). On the other hand ownership structure also affects the implications of corporate governance provisions. More outside investors require more implications of corporate governance issues. Ownership concentration, directors equity based incentives and outside directors reputation vary inversely with earning timeliness (Bushman, Chen, Engel, & Smith, 2004). There are two types of governance, 1) external governance of corporate 2) internal governance of corporate. Governance of corporate matters in the valuation of firms, these governance styles can also called democratic and autocratic styles of governance. More democratic controlled firms have more valuation of firm and autocratic controlled firms have low valuation (Brown & Caylor, 2006).

3. Materials and Methods

3.1 Population

The purpose of study is to analyze the relationship between the board characteristics and firm value, measured by Tobin's q, sugar and textile sector, Pakistan. So, data of public ltd companies from industrial and food sector, listed at Karachi Stock Exchange, was taken. Corporate

governance issues are mostly in companies where there is a wide gap between the management and ownership. This gap creates agency problems for owners in order to show impact of corporate governance on MV(market valuation) of firm (Singh & Davidson III, 2003). Two sectors of industry (textile and food industry) were being focused. In textile sector and food industry data of previous 6 years is analyzed, from 2006 to 2011. There are different reasons of using listed firms.

- ❖ Corporate governance issues are mostly in companies having a gap between management and ownership(agency problem)
- ❖ Panel data is easily available and published in annual reports of firms.
- ❖ As firms are being audited by chartered accountants so there is reliability in data.

3.2 Sampling

Probability and non-probability are the two sampling techniques used for choosing the samples from the target population. Probability sampling means that there is a known chance that elements can be selected as sample subjects. And in the nonprobability sampling elements don't have a chance of being selected as sample subject (Sekaran).

For the purpose of data collection for this study Convenience sampling technique (type of nonprobability sampling) is being used. Those industries are being selected for which data is conveniently available.

3.3 Data Collection

3.3.1 Type of Data

Data which has been previously issued by companies, state bank of Pakistan, is used for the purpose of analysis. Secondary data is mostly used for the purpose of financial study of research. Date is cross sectional and repeated over the time of six years from 2006 to 2011. This type of secondary data is also called panel dat. Panel data was taken from

- Basic balance sheet analysis issued by state bank of Pakistan of various companies.
- annual reports issued by various companies
- websites of textile and food industry

- Website of KSE was collected.

3.3.2 Panel Data

Panel data means data which is repeated over the in different firms or entities. Panel data is combination of cross sectional and time series. In research problem, board characteristics and firm valuation, evidence from public limited companies Pakistan, textile and food sector, data is collected from different industries and different companies over the time of 6 years from 2006 to 2011. This type of data is called panel data. Panel data is multidimensional data of two things, cross sectional and time series. For the purpose of analyzing cross sectional, time series and panel data fix and random effect model is used. Fix effect model (FEM) include dummy variable in order to control the effect of unobservable variable. It is also called panel regression. Eview is used to analyze this type of data. Random test is suitable for those entities where data is selected randomly as a sample. Error component model (ECM) is most suitable for situation where intercept of individual units is uncorrelated with repressors. Random data analysis is also called ECP (error component model). ECP assumes that individuals units are randomly selected from large population. On the other hand it is also assumed that individuals units have constant mean.

3.3.3 Panel Regressions

For the purpose analyzing the overall impact of CEO duality, board meetings, board size and board composition (CEO duality, BS, BC, BM) MV (Q, ROE & ROA) multiple regression analysis equation was used.

$$MV = a0 + b1CEOD + b2BI + b3BS + b4BC + e$$

This panned regression follow three tests, 1st of all panel regression used two kinds of test random effect modle and fix effect model, then a test called Hausman test was used to decide either fix test will be used or random test will be used. The value of P calculated gives evidence of test if value is lesser than 0.05 then use random test otherwise fix effect test.

Random effect model was used after the conclusion Hausman test, calculated by running data in Eview.

3.3.4 Random and Fix Test

Fix and random tests are used, where data have both characteristics, cross sectional and time series. But it is necessary to determine either random test used or fix test. A common practice used to judge either fix test used or random test to be use, in panel data analysis is Hausman test. In order to conduct Hausman test it is compared either cross sections are more or coefficient to be measured are more. But in this study number of cross sections are lesser than number of coefficient, therefore random test is appropriate in this study, in order to apply a model of analysis. Random test is used where value of F ratio is more than 0.01. This value is calculated by conducting Hausman test.

3.3.5 Hausman Test

Hausman test is applied in imperial studies in order to determine either fix test is applied or random test applied. If value of p after determining hausman test is greater than 0.01 then random test is applied. Hausman test p value is also shown as 0.05 in different empirical studies.

The Hausman test (also called the Wu–Hausman test, Hausman specification test, and Durbin–Wu–Hausman test) is a statically technique used to analyze either fix effect test or random effect test will be used in panel regression analysis. This test gives significance of fixed effect model and random effect model. There are two hypotheses.

H0 = random effect is most suitable and consistent for panel regression analysis.

H1 = random effect test will be inconsistent in panel regression analysis.

H0 will be accepted if value of p in Hausman test is lesser than 0.05, if value is more than 0.05 then H0 will be rejected.

4. Results and Discussion

Objectives of this study (board characteristics and firm financial and market performance) were achieved through panel regression used in this study, now results are being

interpreted in the following section of study. This section of my thesis contains the results and discussion of this result, this section contains three parts of results.

1. Descriptive statistics (maximum, minimum, mean and standard deviation of variables)
2. Correlation of different independent variables and dependent variable, first section for ROA and independent variables (board characteristics) 2nd for ROE and board characteristics and 3rd for market valuation (Tobin's q) and corporate governance (board characteristics)
3. Last section of results and discussion is panel regression, it also contain further results of 3 models of regression.

4.1 Fix Effect versus Random Effect

In fix and random test are used, where data have both characteristics, cross sectional and time series. But it is necessary to determine either random test used or fix test. A common practice used to judge either fix test used or random test to be use, in panel data analysis is Housman test. In order to conduct Housman test it is compared either cross sections are more or coefficient to be measured are more. But in this study number of cross sections are lesser than number of coefficient, therefore random test is appropriate in this study, in order to apply a model of analysis.

Random and fix test is also used in different imperial studies in order to analyses overall impact of corporate governance practices on the performance of firm, Housman test is applied in imperial studies in order to determine either fix test is applied or random test applied. As random test is a type of regression so, we can get conclusion either accept null hypothesis or reject null hypothesis, random and fix test is used in order to reach the objectives of study. Regression analysis helps researcher in or to test the hypothesis empirically and to reach the objective of research.

Random test is suitable for those entities where data is selected randomly as a sample. ECM is most suitable for situation where intercept of individual units is uncorrelated with repressors. Random data analysis is called ECP (error component model). ECP assumes that individuals

units are randomly selected from large population. On the other hand it is also assumed that individuals units have constant mean.

Random test is applied where value of p is more than 0.05; values as given in appendix 1, p value are more than 0.05 in all three models, TQ, ROE and ROA as a dependent in three models. This value in the book of introduction to econometrics is 0.01.

Table 1: Random test where TQ is dependent variable

Dependent Variable: TQ

Method: Panel EGLS (Cross-section random effects)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.040042	0.055809	-0.717487	0.4737
CEOD	0.050638	0.015759	3.213198	0.0015
BM	-0.003186	0.004130	-0.771559	0.4410
BS	0.000136	0.006720	0.020253	0.9839
BI	0.172170	0.032705	5.264316	0.0000

Effects Specification	S.D.	Rho
Cross-section random	0.081220	0.5969
Idiosyncratic random	0.066750	0.4031

Weighted Statistics

R-squared	0.117712	Mean dependent var	0.007926
Adjusted R-squared	0.105415	S.D. dependent var	0.070189
S.E. of regression	0.066388	Sum squared resid	1.264912
F-statistic	9.572612	Durbin-Watson stat	1.462953
Prob(F-statistic)	0.000000		

Un-weighted Statistics

R-squared	0.144242	Mean dependent var.	0.024881
Sum squared resid	3.036315	Durbin-Watson stat	0.609458

As shown in table 1 prob. (F-statistics) 0.00000, indicates that independent variable board characteristics (board independence, board composition, board size and CEO duality) are jointly associated with the market valuation of sample industry (food and textile) measured in the form of Tobin's q. results gives an indication that model is significant at 1%,5% and 10%. F ratio 9.572612 shows market valuation of sample firms is being changed by the application of corporate governance practices. As empirical evidence shows that market valuation firm has association with corporate governance(Bai et al., 2004; Black et al., 2006; DeFond et al., 2005; Giroud & Mueller, 2011; Klapper & Love, 2004; N. Balasubramanian a, 2010) .

Result of table 1 are proof of reference that CEOD have a significant effect on the market valuation of firm as measured in form of Tobin's Q. results given in t statistics (0.0015) shows that CEOD is not significant at 1% but is significant at 5% and 10%. CEO of any firms has effect on the market valuation of firm. Value of coefficient is positive, which shows that duality is favorable for a firm, as dual CEO will save the cost of two designations and as a result value of firm increase due to increase in profit.

Board size and board meeting are non-significant in this model. As results shows that BM and BS is not significant at any level of significant. As results given in table 1 represents that board independence is highly and positively significant at 1%, 5% and 10% level of significant, the more the independent director more will be the performance of firm (Abdullah, 2004; Al-Saidi & Al-Shammari, 2013; Baysinger & Butler, 1985; Beasley, 1996; Bhagat & Black, 1999; Coles et al., 2008). Value of T statistics 5.264316 and prob 0.0000 shows that board composition is a cause of change in market valuation of firm. If one director in the ratio of independent and dependent directors is increased value of firm is increased by Rs 0.172170. Board independence results shows that more directors that have no relationship with organization either family relation or working as an employee of sample firms, food and textile sector of Pakistan. Results conclude and give the answers of objective "to know the impact of board independence on firm

valuation". The more the number of independent directors more will be the market valuation of firm.

Table 2: Dependent Variable: ROA (Return on assets),

Panel EGLS (Cross-section random effects)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-27.87837	11.35958	-2.454173	0.0147
BI	-1.845650	6.777297	-0.272328	0.7856
BOARDMEETINGS	2.246685	0.780802	2.877409	0.0043
BS	3.426202	1.327119	2.581683	0.0103
DUALITY	-7.624554	3.525286	-2.162818	0.0314
	Effects Specification			
			S.D.	Rho
Cross-section random			8.590449	0.3540
Idiosyncratic random			11.60450	0.6460
	Weighted Statistics			
R-squared	0.055170	Mean dependent var		2.960353
Adjusted R-squared	0.042047	S.D. dependent var		12.02403
S.E. of regression	11.76881	Sum squared resid		39889.43
F-statistic	4.204150	Durbin-Watson stat		1.466417
Prob(F-statistic)	0.002526			
	Un-weighted Statistics			
R-squared	0.150324	Mean dependent var		6.125222
Sum squared resid	61077.44	Durbin-Watson stat		0.957711

In this regression model, ROA (Return on assets), as a dependent variable and board independence, board meetings, board size and CEO Duality as a independent variable, in order to know the significant level of overall model F-statistic shows that model is overall significant. Probability shows that model is significant at 5% and 10% level of significant. It shows that return on assets is being changed by change in board characteristics of registered companies, at Karachi stock exchange, textile and food sector, Pakistan. F ratio shows that null hypothesis is rejected and alternative hypothesis is accepted. All the independent variables (board independence, board meetings, board size and CEO Duality) are jointly and highly significant at 5% level of significant. It performance of firm measured in the form of ROA (Return on assets), is being changed by change in corporate governance practice. In order to measured individual impact of independent variables on performance of food and textile firms registered at Karachi stock exchange of Pakistan, simple regression is used. Board size has T statistics 0.0103 shows that board size significantly and positivity affected by change in board size, if board size is increased by one member performance of food and textile sector registered at KSE, will change by 3.426202 rupees. Board size have significant impact on Return on assets of textile and food sector selected as a sample firm, from overall industry of Pakistan registered at Karachi stock exchange. In other words we can say that higher board have good performance, the more the number of directors at the board of food and textile industry, selected as a sample the more will be the performance (return on assets). These results are also consistent with imperial research conducted in past, supporting references.

Board meeting is highly and significantly associated with the performance (ROA) (Return on assets) of food and textile industry of Pakistan. So, we accept alternative hypothesis that ROA is being changed by change in board meetings. By increasing board meetings performance of firm also increase. Analysis of textile and food industry selected as a sample for getting a proof of impact of board characteristics on the performance of firm (ROA) (Return on assets), indicates, if we increase one meeting in a year return on assets is Decrease by -7.624554 percent per year. Board meetings as a independent variable have a value of T ratio 0.0043, result shows that it is significant at 1%, 5% and 10%.

Results give a proof that CEO Duality is a causal factor of ROA (Return on assets), the firms have duality are performing low as compare to the companies have no duality. CEO Duality is

significantly and negatively related to the performance of food and textile industry. Results of random test show that firms having dual CEO'S have to decrease performance by -7.624554 percent. Value of T statistics (0.0314) shows that CEO Duality as a causal factor is significant at 5% and 10%. Firm having no duality are performing better as shown in many imperial evidences as well as my thesis and vice versa (Abdullah, 2004; Baliga et al., 1996; T. Y. Lam & Lee, 2008; Peng et al., 2007).

Board composite means ratio of dependent and independent, result shows in thesis that BC (Board composite) have no significant effect on the performance ROA (Return on assets), evidence from textile and food sector of Pakistan. It is not significant at 1%, 5% and 10%. It means board composite is not causal factor of performance of firm.

Table 3: Dependent Variable: ROE

Panel EGLS (Cross-section random effects)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-47.83842	18.19633	-2.629015	0.0092
BOARDMEETING	3.715880	1.307468	2.842042	0.0049
DUALITY	-4.448668	5.006543	-0.888571	0.3752
BS	5.503241	2.240476	2.456282	0.0148
BI	-4.860505	14.00713	-0.347002	0.7289
	Effects Specification			
			S.D.	Rho
Cross-section random			11.90979	0.2314
Idiosyncratic random			21.70401	0.7686
	Weighted Statistics			
R-squared	0.059160		Mean dependent var	5.718684
Adjusted R-squared	0.041976		S.D. dependent var	22.01217

S.E. of regression	21.54666	Sum squared resid	101672.6
F-statistic	3.442681	Durbin-Watson stat	1.676939
Prob(F-statistic)	0.009414		

Unweighted Statistics

R-squared	0.085375	Mean dependent var	9.563482
Sum squared resid	130171.8	Durbin-Watson stat	1.309798

Board characteristics as discussed in many empirical studies have impact on the performance of firm; here is also an evidence of results calculated by eview. This research study shows that there is high significant relationship between the firm performance (return on equity) and board characteristics (board size, board composite, board meetings and CEO duality). Value of F statics 0.00914 shows that model is significant at 1%, 5% and 10% level of significant. Results indicate that corporate governance mechanisms matter in the performance of sample firms, food and textile sector, listed at Karachi stock exchange, Pakistan. Value of R-square indicates overall impact of board characteristics on the performance of sample firms. Results concluded that corporate governance mechanisms must be applied in food and textile sector of Pakistan. If there is change in board characteristics as giving dual rank to CEO, number of meetings, number of directors on a board and board independency are causal factor of performance measure by return on equity. Note: 16 out layers were excluded from data for the purpose of analysis of board characteristics and firm performance (return on equity)

Board meetings and board size are highly significantly and positively correlated with the performance of firm (return on equity). Results provide evidence that by increase in one meeting of director's performance changed by 3.71 percent annually. By increasing one director on the panel of directors ROE is increased by 5.50 percent. This evidence shows that board meetings and board size have a positive relationship with return on equity. Value of T statistics of board meetings 0.01 and for board size 0.004 shows that there a high significant relationship with return on equity at three levels of significant.

By increasing number of directors on panel of directors and number of meetings in a year performance of firms increases by 5.50 percent and 3.71 percent. Other 2 variables are not significant at any level of significant.

5. Conclusion

This study contains the investigation about the corporate governance mechanisms and firm performance, using 54 sample firms from textile and food sector, registered companies at Karachi stock exchange of Pakistan, for period of six years from 2006 to 2011. Based on the results of study, descriptive statistics (maximum, minimum, mean and standard deviation), correlation and panel regression analysis, following conclusion and recommendations are given. Based on the results of descriptive statistics, financial performance and market perforce is 6.072, 1.389, .024744 respectively return on assets, return on equity and Tobin's q. result shows that firm are utilizing their resources in a better way. Results of descriptive statistics indicate that 20.40% firms have CEO duality, majority of firms have no duality. Board meetings are 4.52 means almost 5, average per year, in textile and food sector registered companies at stock exchange of Pakistan. Average board size per sample firm in 6 years was 7.63 means 8 directors per sample firm, almost average sample firms have 39.39% independent directors. Correlation analysis describes that most of sample firm's board characteristics and firm performance are correlated, only one measure ROE is not correlated with board independence, board meetings, board size and CEO duality. Board characteristics are also mutually correlated at different level of significant. On the other hand dependent variables Return on assets, return on equity and Tobin's q were highly correlated. All variables are not correlated at same level of significant but they different variables are correlated in different levels of significant and different directions.

Panel regression concluded after analysis that board size, board meetings have highly significant relation with return on assets, and CEO duality is also statically significant and negative relation with return on assets at 1% level of significant. Board independence is not significant at any level of significant. Overall this model (board characteristics and ROE) is highly significant at 1% level of significant. CEO duality and board independence of textile and food sector are highly and significantly associated with Tobin's q at 1% level of significant.

But board size and board independence are no significant or have no impact on the market valuations of sample food and textile industry. This results give conclusion that market valuation of firms are being changed by changed in governance mechanisms. Overall this model (board characteristics as an independent variable and Tobin's q as a dependent variable) result concludes, model is highly significant at 1%, 5% and 10% level of significant, which indicates that board independence, board size, board compositions and CEO duality is a causal factor of market valuation. Even through positive coefficient of board independence, board size, board compositions and CEO duality with return on assets and Tobin's q indicates that food and textile industry's financial performance is being changed. CEO duality has negative relation with the performance of sample textile and food sector.

In general, results give indicator that sample food and textile firms with effective board characteristics improve financial performance based on financial performance measures to be used. Although all board characteristics are not supporting the stated hypothesis, these are not equally important for each performance measure and each company. Board characteristics may not be supportive at each time and for each company. Study have achieved objective by identifying all the attributes that help researcher to test hypothesis. So, this study indicates that agency theory gives a good explanation of correlation between corporate governance mechanisms and firm financial performance measures.

6. Recommendations

This research study describes the relationship between firm performance and board characteristics of textile and food industry of stock exchange of Pakistan. On the base of results and conclusions reached following recommendations are given.

- Attention must be given to minimize number of directors in a panel of directors, as larger panel is source to increase expense and decrease in revenue.
- Textile and food sector, registered companies at Karachi stock exchange of Pakistan, selected as a sample must decrease number independent directors on a panel of directors.

- In sample sector of industries CEO must have single designation as results of study indicate negative value of coefficient; CEO duality is a cause of decrease in performance of firm.

- At the end it is suggested to sample sector of textile and food sector that corporate governance practices must be applied in corporation. As corporate governance have a significant effect on the performance and market valuation of firm.

- Quality of institutions and culture of institutions must be devolved in order to apply corporate governance issues because the applications of corporate governance practices require good culture.

- Capital market of Pakistan must be more efficient, information must be in the access of every individual either private information or any secret information that are in the general public favour.

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