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**DOES FINANCIAL PERFORMANCE OF BANKS IS AFFECTED
BY CORPORATE GOVERNANCE? EVIDENCE FROM
PAKISTANI BANKS**



UNIVERSITY OF ALGARVE

Faculty of Economics

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**Dissertation for obtaining the Masters Degree in MSc Management
(Specialization in Tourism Management)**

The final work is carried out under the supervision of:

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Work Authorship Declaration

I declare to be the author of this work, which is unique and unprecedented. Authors and works consulted are properly cited in the text and are in the listing of references included.

QAMAR UZ ZAMAN



(signature)

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RESUMO

A governança corporativa é um procedimento através do qual as empresas são controladas e governadas com o objetivo de aumentar o valor do acionista e atender às expectativas de outros clientes. A importância das práticas de governança corporativa não pode ser enfatizada globalmente desde o escândalo e o fracasso de muitas empresas de renome, como a Enron. Portanto, os vários governos e seus órgãos reguladores das organizações já aprimoraram e reforçaram as medidas para controlar a violação de assuntos delicados relacionados à governança corporativa e salvaguardar os direitos dos acionistas ou investidores nos mercados financeiros livres ou dentro das corporações. A saúde de uma economia está interconectada com o desempenho de seus principais setores ou instituições, especialmente em um país em desenvolvimento como o Paquistão. Portanto, não podemos supervisionar o papel crítico de seu setor bancário no bem-estar econômico. Se o setor bancário tiver um desempenho melhor, ele terá um efeito positivo na economia e vice-versa. Assim, este estudo tem como objetivo explorar o impacto das práticas de governança corporativa (GC) no desempenho financeiro dos bancos a partir do período de 2009-2018. O objetivo é desenvolver um ambiente de negócios transparente e melhorar a eficácia da empresa. A recente crise financeira que atingiu o mundo no século XXI exigiu a adoção de boas práticas de governança corporativa. O principal objetivo do estudo foi explorar o impacto da governança corporativa no desempenho financeiro dos bancos. A principal motivação deste estudo é explorar o impacto das variáveis de governança corporativa no desempenho financeiro dos bancos, medido pelos indicadores de desempenho (rentabilidade). O estudo enfoca o seguinte objetivo; examinar a conexão entre a governança corporativa e o desempenho financeiro dos bancos, destacar as proxies da governança corporativa que influenciam o desempenho financeiro dos bancos e dar recomendações aos formuladores de políticas, Banco do Estado do Paquistão e implicações gerenciais. No entanto, este estudo identifica e conduz a pesquisa na área delinqüente e aborda a seguinte questão. Existe alguma associação entre as práticas de governança corporativa e o desempenho financeiro dos bancos no período de 2009 a 2018? As práticas de governança corporativa influenciam o desempenho financeiro dos bancos? O tamanho da amostra do estudo foi selecionado com base na técnica de amostragem aleatória simples. Esse método de amostragem implica que "um plano de análise de probabilidade no qual todo e qualquer componente da população tenha uma chance conhecida e

equivalente de ser escolhido como sujeito". No total, dezesseis bancos foram selecionados do setor público e privado. Para medir o desempenho financeiro dos bancos, foram utilizados proxies do índice de desempenho; ROA, ROE, NPM e EPS. Enquanto as variáveis independentes do estudo, a governança corporativa foi explorada com a ajuda das seguintes variáveis; tamanho do conselho, independência do conselho, reuniões do conselho, tamanho da empresa e idade da empresa. Para os dezesseis bancos, foram coletados dados de dez anos para cada variável a partir dos relatórios anuais dos bancos, recuperados dos sites oficiais dos bancos. A estatística descritiva e a análise correlacional foram aplicadas nos dados juntamente com o Teste de Mínimo Quadrado do Painel. O E-views 7.0 foi utilizado para analisar os dados com a análise Econométrica. Os resultados demonstram que o BS tem um efeito positivo e enorme no desempenho dos bancos, utilizando ROA, ROE e NPM, enquanto o BS é considerado imaterial, utilizando o EPS como uma medida de descrição. Verificou-se que o BI tem um efeito positivo no desempenho utilizando ROA e EPS, enquanto é observado como irrelevante para o ROE e o NPM. O BM tem efeito positivo, utilizando todos os modelos, por exemplo, ROE, ROA, NPM e EPS. O FS é visto como tendo efeitos misturados, por exemplo, efeito positivo no desempenho utilizando ROA e EPS, negativo utilizando ROE e irrelevante utilizando NPM. Finalmente, observa-se que a FA é irrelevante em todos os modelos, com exceção do modelo 4, por exemplo, não afeta o ROE, o ROA e o NPM, apesar de ter um efeito negativo no EPS. O presente estudo conclui que a governança corporativa geral afeta significativamente o desempenho financeiro dos bancos no Paquistão. O estudo conclui que o desempenho financeiro dos bancos paquistaneses melhora pelas práticas de governança corporativa. O CG é o arranjo de princípios e métodos para controlar e monitorar as transações bancárias, e transmite procedimentos / regras aos principais órgãos de tomada de decisão sobre como administrar os empreendimentos e um aumento nas estimativas dos investidores e na proficiência bancária. A cooperação de diretores independentes na síntese do conselho aumenta a competência do conselho e protege os benefícios e privilégios dos investidores. Um número suficiente de reuniões em um ano lida melhor com as transações corporativas e melhora o desempenho dos bancos. Os resultados desse exame mostram que a governança corporativa tem um enorme efeito no desempenho financeiro dos bancos. O presente estudo objetiva a promulgação de políticas imperativas para diminuir a desproporcionalidade encontrada nas informações e melhorar a governança corporativa (CG) e o desempenho firme no setor bancário do Paquistão.

Alto nível de pelucidez e revelação pode ser empregado como ferramenta de aprimoramento da confiança, a fim de capitalizar o valor do negócio. O presente estudo propõe que o menor nível de exposição ou divulgação dos bancos esteja acima do pré-requisito das autoridades de vigilância para lidar com os benefícios indevidos de divulgação usufruídos pelos bancos. O estudo também fornece recomendações de estudo para as implicações gerenciais e as autoridades envolvidas. A investigação do setor bancário confirmou que existe uma relação das práticas de GC com a demonstração financeira das empresas. De qualquer forma, esse exame concentrou apenas cinco proporções de governança corporativa, como (tamanho do conselho, independência do conselho, número de reuniões executivas, tamanho da empresa e idade da empresa), é necessário pesquisar outras variáveis externas e controlar determinantes e componentes da governança corporativa. Da mesma forma, outras pesquisas podem ser conduzidas aceitando diferentes proporções de execução, pois o estudo de fluxo e refluxo é restrito ao retorno sobre ativos (ROA), retorno sobre patrimônio (ROE), lucro por ação (EPS) e margem de benefício líquido (NPM) para quantificar o desempenho das organizações. Pesquisas futuras podem ser realizadas utilizando diferentes elementos para avaliar o efeito da governança corporativa no desempenho.

Palavras-Chave: Governança Corporativa, Desempenho Financeiro, Bancos, Paquistão,

ABSTRACT

Corporate governance is a procedure through which businesses are controlled and governed with a purpose to enhance the shareholder value and to meet the anticipations of other patrons. The objective is to develop a transparent business milieu and improve the company's effectiveness. The recent financial crisis that hit the globe in the twenty-first century required the move for good corporate governance practices. The main purpose of the study was to explore the impact of the corporate governance on the financial performance of the banks. The sample size of the study was selected on the basis of simple random sampling technique. Total sixteen banks were selected from the public and private sector. To measure the financial performance of the banks following proxies of the performance ratio were used; ROA, ROE, NPM and the EPS. While the independent variables of the study, corporate governance was explored with the help of the following variables; board size, board independence, board meetings, firm size and the firm age. For the sixteen banks, ten years data for each variable were gathered from the annual reports of the banks which were retrieved from the official websites of the banks. Descriptive statistics and the correlational analysis were applied on the data along with the Panel Least Square Test. The E-views 7.0 was used to analyze the data with the Econometric analysis. The current study concludes that overall corporate governance significantly impacts the financial performance of the banks in Pakistan. The study also gives study recommendations for the managerial implications and the concerned authorities.

Key Words: Corporate Governance, Financial Performance, Banks.

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CHAPTER 1: INTRODUCTION

Corporations are the foremost and critical institutions in economy of any country. They play a vital role in evolution and development of economy of a country. Corporations can be divided into many types according to their various prominent features such number of employees (small firms, medium sized or large firms) capabilities, hierarchy and functions they perform around the globe. In these times of technology and globalization where governments have now less control over them, they have to perform and fulfill functions and liabilities. As these corporations own the shareholders wealth (debt financing), so they are accountable to them and legally responsible to show and maintain their certain performances and financial reports. The study conducted by Crane & Matten (2007) stated that the economies of the countries are benefitted by the rational practices and good corporate governance of the companies and their activities of corporate social responsibilities also have good impact on the wellbeing of the societies in which they operate.

The importance of corporate governance practices cannot be over emphasized globally since the scandal and failure of many well reputed companies such as Enron. So the various governments and their regulating bodies for organizations has already enhanced and tighten the measures to control breach of sensitive matters relating to the corporate governance and to safeguard the rights of shareholders or investors in the free financial markets or within the corporations (Kirkpatrick, 2009).

In this age of globalization and technological advancement, companies are playing their crucial role for the betterment of the economies. Some organizations have expanded their operations and businesses internationally by adopting various growth strategies including Mergers and Acquisitions which have significant effect on their financial performance. Therefore, in this manner these organizations have increased their burdens, liabilities and responsibilities towards the shareholders and even to the stakeholders of their businesses globally. The current research subject has been purposely under investigation worldwide in developed countries such as England and United States of America. On the contrary, this subject area in developing countries

such as in Pakistan and Bangladesh is not fully explored and investigated and a research gap is present (Tahir, Sabir, Arshad & Haq, 2012).

“Corporate Governance is a process through which shareholders induce management to act in their interest, providing a degree of confidence which is necessary for capital markets to function effectively”, (Rezaee, 2009). It is also described as, all the procedures and methods by which organizations are organized and managed (Sulaiman & Bidin, 2002). “Corporate governance refers to the manner in which the affairs of a corporate body are or should be conducted in order to serve and protect the individual and collective interests of all stakeholders” (Butt 2008). ‘The system by which the organizations are managed and controlled it encompasses the relationships among the company’s shareholders, board of directors, and senior management’ (Horne, 13e).

Corporate Governance (CG) practices play an important role in the wellbeing of an organization. Conferring the above stated definitions and review of previous relevant literature, it is found that CG practices are among the foremost methods and techniques to control and manage them and covers all aspects of an organization such as managerial or administrative aspect, societal aspect and legal obligations in both public and private listed companies. Yusoff & Alhaji (2012) further said that an organization performs better financially in presence of formal code of corporate governance practices.

1.1 Background of Corporate Governance

Review of previous relevant literature clearly describes the numerous aces of good CG practices. If good CG practices are being followed in an organization it can contribute to the economic and financial growth of itself and also country in which it is operating. It helps an organization to achieve its goals and to maximize the shareholders wealth. While an organization can attain the desired goals with the help of good CG practices implemented, it also minimizes the risk of financial susceptibilities, lessens the risk of default or crisis and also safeguards the rights of stakeholders. Organizations with good CG practices play an important role in developing the financial markets.

However, with pros there come cons as well. There is evidence of conflict found in previous literature of corporate governance (agency theory). The relationship among managers (agents), owners (principle) and the stakeholders of the organization is sometimes fretful (Javed & Iqbal, 2010). In Pakistan, a formal code of corporate governance for the public listed companies has been issued in 2002 by the Security and Exchange Commission of Pakistan. So, after implementation of the code, this subject area is important for future research to assess the performance of companies.

CG practices play an important role in the advancement of the financial system of any country. Thus, the code of corporate governance issued by the Security and Exchange Commission of Pakistan (SECP) has key significance for the research scholars of this subject to measure the impact of CG practices on firms' financial performance which is linked with the betterment of the country's financial and economic system. So, in line with the SECP, the State Bank of Pakistan (SBP) has also reissued its code of governance for the banking sector of Pakistan. Over the years, the SBP has maintained its role as the supervisor, administrator and the regulatory authority to control, manage, policy making and implementation process for the banking sector (Kalid & Hanif, 2005).

The code of CG practices published by the SECP in March 2002 has many reforms to reinforce the procedures of regulations and monitoring organizations. According to the Javed & Iqbal, (2010), this code is new for the banking sector of the Pakistan so its success cannot be judged in such a shorter time span as how many number of default cases has been minimized after the implementation of the good practices, or up to which extent the performance of the companies or banks have been improved. The code issued by the SECP has compatibility and meet the standards of the international CG practices followed by their companies. SECP in its code has primarily dedicated on the role of the Board of directors and their accountability to the shareholders and to the stakeholders of the industry. It has also set the procedures and guidelines for the internal and external audits, audit board or committee size and the improved accounting and financial reporting standards for the publicly listed companies to improve their overall financial performance and the net worth of them.

1.2 Code of Corporate Governance (CG)

The code of CG practices amended in 2002 by SECP aims at to enhance the betterment of corporate sector, investors and shareholders rights and to improve the financial reporting standards of companies of Pakistan in international context. The code amended by SECP is the result of team effort by various key institutions of Pakistan as well namely, Institute of Cost and Management Accountants of Pakistan, Chartered of Pakistan and Pakistan Stock Exchange (PSX).

This CG code has numerous new and reliable practices perfect with the worldwide standards. The amendments made by the Security and Exchange Commission of Pakistan (SECP) for the public listed companies center around the two focus purposes which has expanded the essentialness of this subject for the exploration for future research scholars. Most importantly target of this code is to improve and build up the corporate culture for the organizations which leads towards the strengthened operational effectiveness, persuade the board of directors and administrators to accomplish long haul objectives and goals. Furthermore, it is driving force the laws and guidelines for the straightforwardness and the responsibility of the companies to the greatest advantage of the investors (Saifullah et.al., 2014).

1.3 Banking History of Portugal

The Bank of Portugal (Banco de Portugal) is the central bank of Portugal. It was founded on November 19, 1846 as a bank of issue and commercial bank. It was owned privately and performed its functions as public listed company until it was nationalized in 1974. It is the member bank of European System of Central Banks. Majorly, there are three main categories of banks operating in Portugal public retail bank, private retail banks and investment retail banks. Now 23 banks are currently working in Portugal under the supervision of central bank of Portugal. These 23 banks are comprised of both national and international banks and account for over 90 percent of total assets of Portuguese banking system. Multibanco system established in 1985 has made enable all the banks of Portugal to offer online services to its customers around the clock such as paying online bills, online errands, money transfers, paying tax, social security

contributions and so on. Furthermore, it has linked up its customers with mobile phones and internet services as well.

1.4 Banking Sector and CG Reforms in Pakistan

The importance of the financial sector of any country cannot be ignored as these institutions play a major role in the development and growth of the overall economy. The development and growth of the economy is linked with the performance of the financial sector of the country and banks are one of the primary institutions which play their part in channeling the funds in an economic system. Banks are the financial institutions which collect money from their customers and lend it to other people in need earning an interest income. Levine (2006) stated that in this way they channelize the money from surplus to deficit sector in economy.

Banking segment in Pakistan has significant part in the economy of Pakistan and it has persevered through numerous recognizable changes in its possession structure during the most recent 15 years. The administration practices of the financial part have been amazingly modified because of numerous exercises in the business which has changed its situation totally. Among the numerous adjustments of the financial area most conspicuous are the privatization, Mergers and Acquisitions bargains, and the various leveled changes of the state-claimed banks. The SBP (State Bank of Pakistan) report (2003) further depicts that the various leveled changes among the financial business give the chances to the money related establishments to make progressions in the field of data innovation (IT) and the deregulation and the monetary advancements (SBP,2003).

The founder of the Pakistan, Quaid e- Azam laid the foundation of the country's first bank on 1st July 1948 which was named as State Bank of Pakistan. It is the country's prime bank and bank of all the banks operating in Pakistan. It oversees and manages them in an efficient and effective manner and is responsible for the monetary and fiscal policy. In 1970, all the operating banks in Pakistan were nationalized by the government

at that time and only five banks were established by the government to perform some specific functions for a few sectors of economy upon the instructions of the government. This resulted in negligence of some other sectors of the economy and eventually leads to towards the bad performances of the banks and economy as well.

Conferring to the financial environments of the Pakistan in recent years, as it is in distress and suffering state, it would be the appropriate time to research the subject at macro level for the more consistent and comprehensive results. Dr Shahid Javaid Burki, well-known economist, states that, 'Pakistan can generate a greater bounce in its economy than India by creating better governance. It has occurred before in the country's difficult economic history and could happen again', (Improved Governance: Dawn, 12th October, 2010).

Corporate Governance in Pakistan has not flourished fully. On the off chance that we think once again into the historical backdrop of CG practices, it tends to be effectively evaluated that in our nation great CG practices do not compensate or bring the productive outcomes consistently and not the untrustworthy movements or practices punish the organizations. Great CG practices are not pursued as a result of the deceptions and the misrepresentations of the economy did not advance the divulgence prepares in the monetary framework. There is absence of expert administration setups and chains of command and the numerous organizations recorded in the financial markets are not completely developed in set of accepted rules and practices of CG. These organizations do not fulfill the guidelines of the widespread corporate administration measures. The organizations have the firmly held progressive systems and sharing frameworks, review board of directors, size and their reports, the contentions among the investors and the administrators, the defects of the interior data framework and the outside components which essentially sway the presentation of the organizations, for example, the stakeholders of the business. In this manner, all these previously mentioned and the numerous others are the running backs in the great corporate governance (CG) practices implementation procedure, said by Tahir et.al., (2012).

1.5 Identification of GAP

Ahmad, Iqbal & Tariq (2014) stated that the financial performance of the banks incorporates the CG practices can be investigated while using the enhanced set of variables of the CG and financial performance including the CEO duality, board independence and the audit committee independence and further states that other variables of the CG and firm financial performance can be used. Further Saifullah et.al., (2014) also investigated the relationship between the CG practices and the financial performance with the following variables CEO duality and the Audit Committee size.

Tariq, Ali, Ibrahim, Asim & Rehman (2014) said that future research can be conducted on the banking sector by expanding the data collection from 2007-2012 for more comprehensive results. Latief, Raza & Gillani (2014) conducted research study on the non-financial sector of the Pakistan and stated that future research can be directed on the other sectors of the country. Zaman, Arslan & Siddique (2015) uses the accounting data from the period of 2007-2011 only for five year of each bank. Rasheed, A., & Nisar, Z. (2018) also recommended in their research study to measure the impact of corporate governance on firms financial performance by taking the data set after the financial crisis of 2008. So, the current study has taken into consideration all these factors to measure the impact of corporate governance on banks financial performance from 2009 to 2018 in Pakistan.

1.6 Rationale of the study

Apropos in observation, a need is present to comprehensively analyze the impact of corporate governance practices on the banks financial performance from the period of 2009 to 2018. Then to identify weather the performance of the banks significantly improved after the implementation of the CG practices and to measure their financial performance. By summing up, the above studies indicates the fissure in the literature of the subject and the current study investigates the impact of the corporate governance on the banks financial performance by using the data from the period of 2009-2018, and

the ten years data has been collected for the sixteen banks. The study uses the different methodology to investigate the impact of the CG practices on the financial performance of the commercial banks.

1.7 Problem Statement & Research Questions

Extensive review of the literature in the subsequent chapter/section of the study shows that corporate governance practices have impact on the financial performance of the banks in Pakistan. However, this study identifies and conducts the research on the delinquent area and addresses the following question.

- Is there any association between the corporate governance practices and the banks financial performance from the period of 2009 to 2018?
- Do the corporate governance practices influence the financial performance of the banks?

1.8 Significance of the study

The health of an economy is interconnected with the performance of its core sectors or institutions especially in a developing country like Pakistan. So, we cannot oversee the critical role of its banking sector in economic wellbeing. If the banking sector performs better, it will have positive effect on the economy and vice versa. Thus, this study aims at to explore the impact of corporate governance (CG) practices on banks financial performance from the time period of 2009-2018.

1.9 Study Objectives

The core drive of this study is to explore the impact of corporate governance variables on the banks financial performance which is measured by the performance (profitability) indicators. The study focuses on the following objectives.

- To examine the connection amid the corporate governance and banks financial performance
- To highlight the proxies of the corporate governance which have influence on the financial performance of the banks
- To give recommendations to the policy makers, State Bank of Pakistan, and for managerial implications.

1.10 Structure of the thesis

The current research study has six chapters. Each chapter has its own importance and content in research study. The first chapter of introduction discusses the various definitions of corporate governance used in literature, an insight about the background of corporate governance (CG) practices, history of banks in Portugal and history of Pakistani banking sector and the CG reforms in Pakistan regarding banking and other companies operating there. This chapter also includes the problem statement, research questions, rationale and significance of the current research study. Last but not least, the objectives of this study to be achieved are also stated.

Chapter 2 reflects the previous research studies conducted by the various researchers on the subject of corporate governance. It provides the clear idea and direction about previous studies conducted and future research recommendations. It also gives insight about the different theories and models of corporate governance and also discusses the various indicators of financial performance. Then followed by the theoretical framework of this study and the conjectured hypotheses are also included.

Chapter 3 of this study indicates the detailed discussion of various stages employed through which research study has been carried out. This chapter includes the

comprehensive description of applied variables and operational definitions. It also contains the ample details of the various steps taken regarding the data collection, population and sample size choice and the complete research design. In this part of the study data analysis methods and various statistical test applied on data are also mentioned.

Chapter 4 displays results of the study. It provides the numerical results after applying the statistical tests on the data set. This section notifies the tables and their narration in detail.

Chapter 5 of the current study discusses the results in detail under the heading of discussion. This portion / segment of the study discuss the results in detail and highlight the significant or non-significant impact of corporate governance practices on the banks financial performance. This portion highlights the significant and the insignificant results of the proposed hypotheses.

The last chapter 06 of the study discusses the conclusion. It settles the result and discussion and draws the final conclusion of the study. This chapter also provides the suggestions and managerial implications for the Pakistan's banking sector. It also discusses the recommendations for the concerned regulatory authorities, State Bank of Pakistan and Security and Exchange Commission of Pakistan for further enhancements. At the end it also provides research barriers and limitations of the current study and recommendations for future research scholars.

CHAPTER 2: REVIEW OF LITERATURE

2.1 Introduction

The following section of the current study incorporates the extensive literature review and the data with respect to the apprehension factors. This segment incorporates the research studies directed by different analysts identified with the subject. For the portrayal of this particular area of the investigation various sources are used including legitimate and famous research journals, number of books identified with the examination, different databases, inquire about articles, Pakistan Stock Exchange (PSX) just as a few bank's sites to wrap things up web, etc. The examinations introduced in this part are auxiliary in nature which is as of now distributed information in various sources referenced above so as to get the reasonable comprehension in a proper method for the wonder and it is understood that how much and up to which certain level the earlier work has been done on this particular issue; it gives help to the specialists in distinguishing proof of the issue region winning in the writing. Overall adequate examinations have been done on the impact of Corporate Governance on money related performance and coming up next is the survey of each one of these investigations in a far reaching way.

Various researchers have been directed plenteous explores so as to examine the connection between the CG and firms financial performance. The explanation is that the job of corporate administration in any association worldwide is basic so as to run the associations capacities proficiently yet additionally to deal with the exhibition of the firm from the view purpose of various imminent which causes them towards the riches augmentation and to take the association towards the upper hand. Because of this explanation the connection between these two (CG and financial performance) has gotten much thought of researchers during the earlier decade.

There is countless research studies directed on the effect of the corporate governance and their effect on the organizations' financial performance for the propelled markets.

The experimental consequence of this investigation reasoned that the great corporate governance practices have impacted the organizations' efficiency hopefully, lower dissolvability chance and improved the financial estimation of the provinces (Javed & Iqbal, 2006). They further expressed that exploration on this region led by Shleifer & Vishny (1997), John & Senbet (1998) and Hermalin & Weisbach (2003) give an outstanding writing audit to the future analysts. It is presently a significant subject of research in creating markets. The exploration studies directed on this region have the inspiration to examine relationship among them, are the different hypotheses of the corporate administration.

2.2 Theories of the Corporate Governance

2.2.1 Agency theory

Each business has a staple and key goal to amplify the investors' assets. As per the suggestion of the CG, it hypothesizes that there is struggle between the managers (agents) and the proprietors (investors). Investors accept that administration works just for their very own advantage, while the investors have worry about their financial degree of profitability (Berle & Means 1932, and Jensen & Meckling, 1976). Administrators or specialists have different objectives to pursue, for example, the specialists, distinction and different advantages they appreciate and furthermore the entrance to inside data about the organization's performance may offer them a chance to savor the predominant hand than the outside investors of the firm. Organization hypothesis model is introduced beneath in figure 1.

As indicated by the theory, governing body is the checking body between the director and investors. The BOD's screen the two meetings so as to cut down the contentions emerge among them. (Mallin, 2004). Researchers through their important examinations have offered explanations to control this agency issue between the operators and the principals, for example, investment opportunities for the managers, motivators, and the frameworks of observing and the best possible check and parity on them; This checking can be autonomous or the BODs (governing body) can be included to keep the

supervisors on track that they are working to the greatest advantage of investors or not (Fama & Jensen, 1983). Another extraordinary level arrangement is given by the Jensen & Ruback (1983), if the association isn't working to the greatest advantage of the investors, fire the CEO and in serious cases the association can be taken over by different associations through forceful (unfriendly) takeover.

The agency model displayed underneath in the figure expect that solitary two elements are the point of convergence of any business, the manager and the vital relationship and their advantage and objectives to accomplished must be clear and steady among them and the second thought by the professional is that individuals are constantly narcissistic and they lean toward their own advantage and advantages (Daily, Dalton, & Cannella, 2003).

The contentions among the owners and the directors emerge, observing expense of the business expanded to limit the issues and to build the investors benefit. Organization issues and clashes likewise rely on the chain of command of the administering top managerial staff of organizations for the most part winning in any nation. For example, in a country where the proprietors of the organizations reserve the option to exist their possession; scattered chain of importance of the associations. While unexpectedly, the associations with the thorough amazingness structures grade to assume control over the privileges of the minor investors and to pick up benefits and advantages for their own (Spanos, 2005). The model embraces that every one of the elements (people) have the total data, financial specialists are very much aware of their privileges and advantages, have essential information about the administration rehearses and the BOD's are known to the tendencies of the speculators (Smallman, 2004).

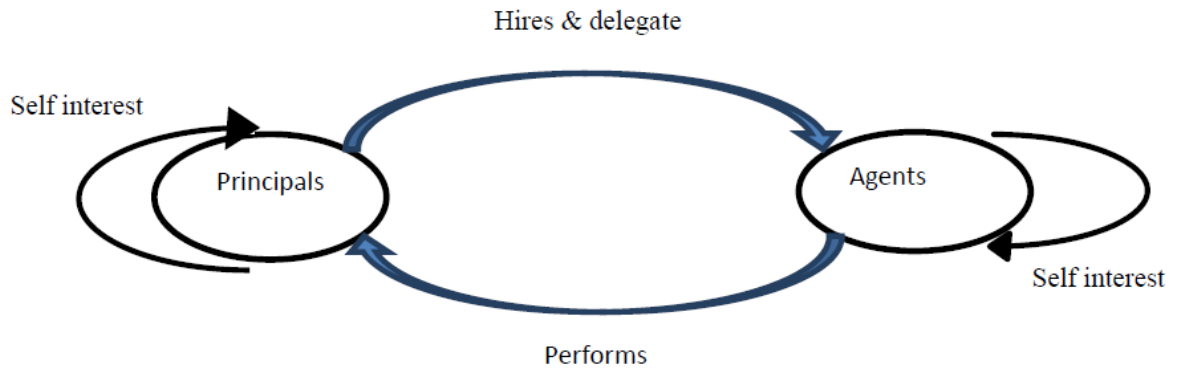


Figure 2.1: Agency Theory Model taken from Abdullah, H. (2009)

2.2.2 Stakeholder Theory

This theory covers the more extensive intrigue zone of the partnerships and looks to fulfill the every one of the partners of the business. The center is that each partner of the firm may get satisfaction as per his/her interests and advantages (Abrams, 1951). Organization theory is tight in idea and application on the grounds that the main point of convergence is specialist head relationship. While the stakeholder theory is more extensive in idea since it covers the entire major concerned meetings of any association than the organization model (Coleman, 2008).

By focusing on the agency theory, the main guardian commitment of any beginning is to amplify the investors' arrival or the possessions amplification. While current theory includes all the encompassed meetings of the business, for example, financial consultants, faculty, providers, and merchants, and in the end the clients. The theory likewise incorporates the authoritative bodies, political gatherings which have certain worries, NGO's, exchange implications, worker's guilds, rivals, potential representatives, point of view customers or clients and the overall population/society. These partners have noteworthy effect on the business execution, and adequacy in the market legitimately or in a roundabout way (Yusoff & Alhaji, 2012).

The theory has turned out to be prominent in CG in light of the fact that specialists have discovered its effect on the monetary performance of the organizations in more

extensive prospect and the shareholder is subject and responsible to the bigger group of spectators/concerned gatherings than the investors as it were. The shareholders are not just the instruments of the proprietors/investors yet they work in the general public so are responsible to the overall population, a case of the McDonald & Puxty (1979).

By focusing on the organizational theory, the main agent commitment of any beginning is to amplify the investors' arrival or the wealth maximization. While current theory includes all the included meetings of the business, for example, speculators, staff, providers, and merchants, and in the long run the clients. The theory additionally incorporates the authoritative bodies, political gatherings which have certain worries, NGO's, exchange undertones, worker's guilds, rivals, potential representatives, point of view customers or clients and the overall population/society. These partners have noteworthy impact on the business performance, and viability in the market legitimately or by implication (Yusoff & Alhaji, 2012).

The theory has turned out to be well known in CG in light of the fact that researchers have discovered its effect on the financial performance of the organizations in more extensive prospect and the shareholder is subject and responsible to the bigger crowd/concerned gatherings than the investors as it were. The shareholders are not just the instruments of the proprietors/investors however they work in the general public so are responsible to the overall population, a case of the McDonald & Puxty (1979).

The researcher communicates that theory acknowledge that shareholders make money related impetus by the normal support of the people in any affiliation (Freeman et.al., 2004). In the further research looks at this supposition precedes the examination and the Jensen (2001) gives passages that the fiscal introduction of any company can't be studied exceptionally dependent on the presentation of its investors. The stakeholders are committed and dependable on various factors likewise, for instance, the fair chain of significance of the information stream system, from the top organization to the cutting edge boss, social and the intrapersonal associations, and the working state of mind, and so forth.

Different sorts of the stakeholders are presented underneath in the figure 2. Three essential sorts of the investors are named 'consubstantial, legitimately authoritative and intelligent' stakeholders, (Rodriguez, A, Ricart, E, Sanchez & P, 2002). Unquestionably the primary kind of the stakeholder is the consubstantial who fuses the financial specialists/owners, examiners, laborers and the cognizant assistants of the business. The second sort of the stakeholders recognizable in the speculation is the legitimate accomplices as the name depict that these have formal concurrences with the firm, for instance, cash related affiliations, suppliers, and the customers. The third sort of the stakeholders consolidates the social and typical constituents of the whole structure wherein a business works and gets the affirmation from the general populace, neighborhood systems, and various countries and investigates, and so on. These constituents of any business help to achieve the business significance, sentiment of corporate social obligation, and the viability in the business focus by and large. Zingales (1998) further suggested in his assessment that associations should make theories towards the establishments or the substances who contribute in the value creation methodology of the business, either as capital, human power or as the social welfare broadens, and so on.

The researcher expresses that theory expect that organizations make monetary incentive by the common participation of the individuals in any association (Freeman et.al., 2004). In the further research examines this hypothesis comes before the analysis and the Jensen (2001) gives entries that the monetary presentation of any association can't be evaluated uniquely based on the demonstration of its shareholders. The organizations are at risk and responsible based on different factors too, for example, the balanced chain of command of the data stream framework, from the top administration to the bleeding edge supervisors, relational and the intrapersonal connections, and the working vibe, etc.

Various sorts of the stakeholders are displayed underneath in the figure 2. Three fundamental kinds of the stakeholders are named 'consubstantial, legally binding and relevant' stakeholders, (Rodriguez, A, Ricart, E, Sanchez & P, 2002). The absolute first sort of the partners is the consubstantial who incorporates the investors/proprietors, financial specialists, workers and the intentional accomplices of the business. The second kind of the stakeholders, conspicuous in the theory is the legally binding partners as the name portray that these have formal agreements with the firm, for example, monetary associations, providers, and the clients. The third sort of the stakeholders incorporates the social and normal constituents of the entire framework where a business works and gets the acknowledgment from the overall population, nearby networks, different nations and the evaluates, etc. These constituents of any business help to accomplish the business respectability, feeling of corporate social obligation, and the effectiveness in the commercial center in general. Zingales (1998) further proposed in his examination that organizations should make ventures towards the foundations or the substances who contribute in the worth creation procedure of the business, either as capital, human power or as the social welfare extends, etc.

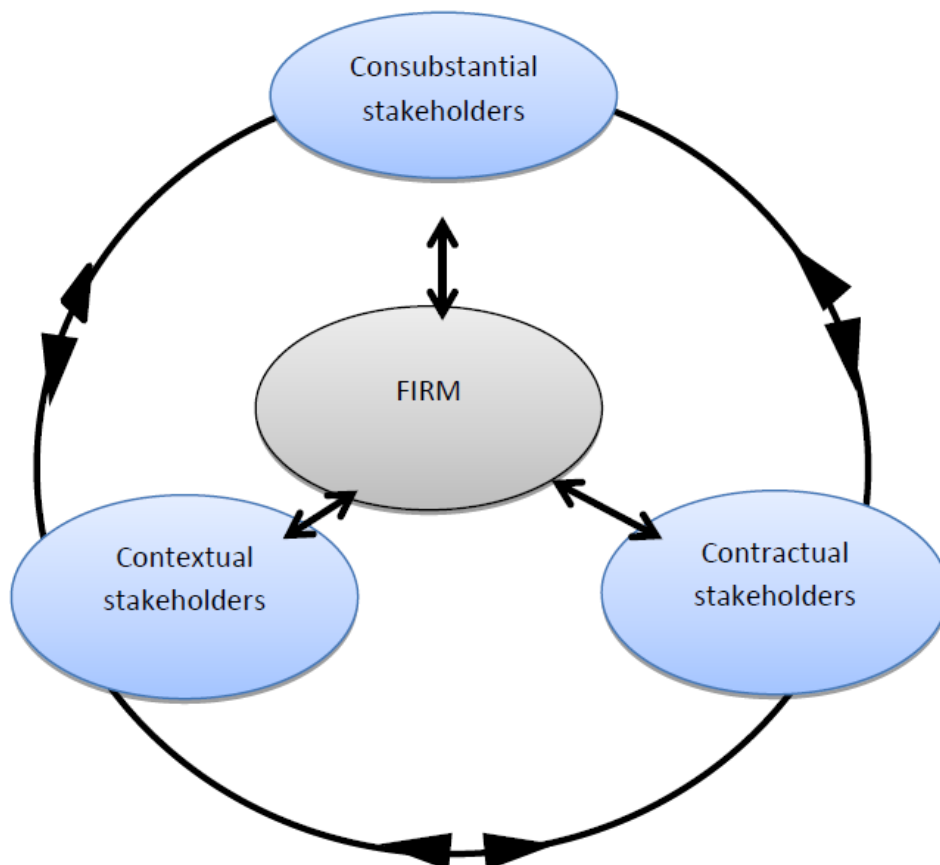


Figure 2.2 Stakeholders classification: Source taken from Rodriguez et.al., (2002)

2.2.3 Resource Dependency Theory

In this hypothesis the BOD's set and monitors the reasonable connection between the firm and the outside condition. The hypothesis attempts that there must be a reasonable and solid connection between the firm and the outside/outer assets which are vital for the endurance of the firm (Pfeffer & Salancik, 1978). Boards of Directors are the major and supervisory system for any association in light of the fact that the board assimilate and relieve the hazard and vulnerabilities of the outside condition and ensure the organizations. The analyst further expresses that the relationship of the assets required for the organizations' endurance, some of the time is the motivation to limit the expense of doing or getting the assets. This decrease in cost procedure is trailed by the arrangement of trade or the administration rules among the comparative firms.

The Williamson (1985) further depicted that the uneven designation of the required assets for the associations build up the connections among the associations and which in the end prompts the great practices of the CG. In any case, every single other thing being consistent, the constrained or rare assets may misrepresent the reliance relationship among the organizations, for example, the deficiency or absence of some significant assets in the earth and up to which level these properties/assets are accessible (Donaldson & Davis, 1991).

The BOD's are capable to deal with the assets for the organizations from the outside condition, for example, the required data, certain keys and capacities, providers, clients, overall population support, purchasers, social gatherings, strategy creators and so forth. (Storms & Kesner, 1994).

2.2.4 Stewardship Theory

Stewards are the chiefs, the operators of the organization hypothesis, it expects that stewards, administrators are not conceited and they will work in understanding to the points and goals of the proprietors/investors (Donaldson & Davis 1991). The fundamental supposition of the hypothesis is that directors or the stewards won't go astray from the objectives of the association and attempt their best to accomplish the proprietors' advantages and destinations. The hypothesis depends on the social cognizance, in reality which accentuations on the lead of the executives (Davis, Schoorman & Donaldson 1997).

The exploration study on this hypothesis further expressed that administrators won't disregard the targets of the proprietors on the grounds that the riches augmentation's target satisfaction will likewise build the prizes for them and they will in the long run have clear rules and strategic; will be limited among all the concerned gatherings, partners. So the Smallman (2004) reasoned that association will achieve and execute the better practices of the corporate administration. The figure 3 given beneath speaks to the model of the stewardship hypothesis.

Stewardship hypothesis is legitimately connected with the advancement of the firm execution, the chief when serves to the greatest advantage of the partners, pacify their needs and the objectives which thusly will lessen the pressures and the contentions among the partners and the stewards of the organizations. Notwithstanding this the investors riches is additionally boosted. The stewardship hypothesis has its center spotlight on the chain of command and strengthening structure of the association as opposed to the different methods of checking and the control. For example, in an association wherein the CEO (Chief official) and the Chairman is a similar individual, at that point the key position and the ability to settle on choices are in one hand (Davis, Schoorman & Donaldson 1997). In a more extensive and loosened up view, hypothesis proposes that a solitary individual can be enlisted for the two jobs, for example, Chairman and the CEO. The hypothesis further supporters that larger part of the BOD's must be subject expert instead of the non-official chiefs (Clarke 2004).

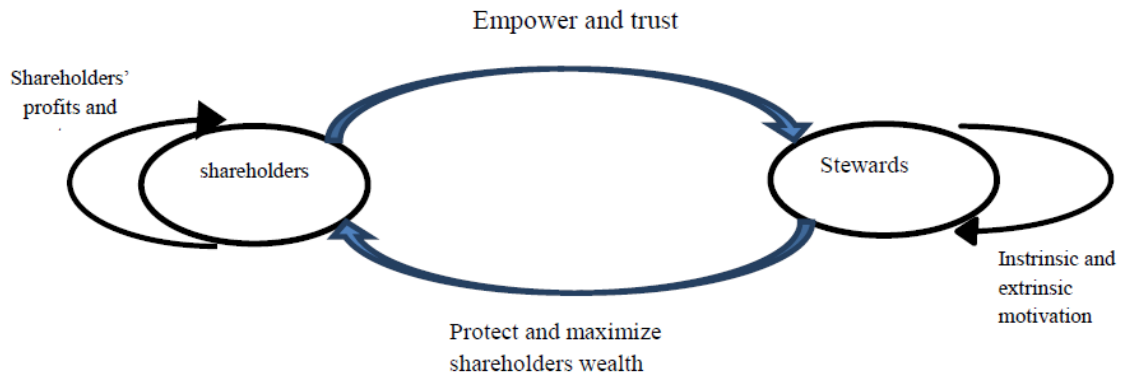


Figure 2.3: The Stewardship Theory, Source taken from Abdullah, H. (2009).

2.2.5 Social Contract Theory

In the survey of the ordered foundation of the corporate administration, another hypothesis, implicit understanding hypothesis is displayed and in 1999 it was created by the Donaldson & Dunfee. The two of them portrayed the hypothesis as a social legally binding commitment on the association, in two sorts; full scale social and the smaller scale implicit understandings. The chiefs are at risk to settle on moral choices for the advancement of the general public as bigger activities, for example, for the networks and then again on small scale level do ventures for the particular substances.

2.2.6 Legitimacy Theory

It is characterized as, "a summed up recognition or presumption that the activities of an element are alluring, legitimate, or fitting with some socially built frameworks of standards, qualities, convictions and definitions" (Suchman 1995). Like the above expressed hypothesis, authenticity hypothesis additionally expresses that there is a legally binding commitment or obligation of the association to take endorsement from the general public to begin their activities in that particular region and to utilize the characteristic assets of the general public. Deegan (2004) further expressed that firm is responsible to the association to about what they do and how they do, etc.

The subject of the corporate administration, CG's key supposition that is to amplify the investors riches augmentation. Yet, the authenticity hypothesis veers off from this central standard of riches amplification and states that the privileges of the overall population everywhere should be ensured and satisfied rather than the investors/proprietors of the associations. The associations which neglect to comply with the necessities and the desires for the organizations may confront confinements and limitations from the general public on the utilization of certain characteristic assets or diminished interest of the organizations' administrations or items. Various examinations have utilized this hypothesis to ponder the effect of CG rehearses from the view purpose of the cultural and ecological announcing, and the investigations showed the connection between the corporate disclosures and the general public's desires (Deegan, 2004).

2.2.7 Political Theory

This hypothesis talks about the democratic right of the proprietors of the organizations and have the unswerving impact on the CG rehearses inside the associations. Government contributes in the center basic leadership inside the organizations. The administration considers the worries of the overall population, for example as social resists (Pound, 1983). This model expresses that the legislature has the key impact in the associations various leveled structure, the stream diagram of the power inside and outside the association, benefit boost, and in the remunerations and advantages of the BOD's. The administration advancements can be picked up and kept up with the assistance of solid political model of the CG. Hawley & Williams (1996) makes reference to in his examination that organization instruments are presently a day constrained by the passageway of the political impact of the legislature.

2.3 Corporate Governance Practices and the firms' financial performance

The effect of CG rehearses on the money related execution of the organizations has been explored generally because of its significance. There are numerous investigations directed regarding this matter reasoned that monetary presentation was

upgraded by the great CG rehearses (Bhagat & Bolton, 2008). The presentation of the organizations is hopefully affected by the corporate administration measures (Wang & Zhou, 2011). Further Yasser (2011) likewise expressed that those organizations which would be wise to/solid CG practices indicated expanded gainfulness and the organizations pay off profits to the investors of the organizations.

Another investigation led by the Latif et. al., (2013) closed their investigation that CG has significant effect on the financial exhibition of the associations. Their examination further investigated that board size of the organizations and the CEO duality pivotal effect on ROA, while the board autonomy has unimportant impact on the arrival on resources (ROA).

Numerous examinations have utilized administrative proprietorship as an autonomous variable for anticipating execution. The outcomes are blended, for example, Morck et al. (1988) discovered U formed connection between firm worth and administrative proprietorship. McConnell et al. (1990) found curvilinear connection between firm worth and administrative proprietorship. The investigation saw that firm worth builds except if administrative possession is raised up to 40 to 50 percent, after that worth drops with further increment in administrative proprietorship. McConnell et al. (1995) likewise decided the connection of firm development with possession structure and obligation proportion. They found that holding of offers by insiders and organizations was of incredible incentive to the organizations having low development comparative with high development firms.

Bahreini & Zain (2013) expressed that presentation of banks was impacted by the instrument of corporate administration. CG practices have positive effect on the budgetary presentation of banks; these practices limited the disappointment hazard which leads the associations towards upgraded dissolvability. This implies CG practices decreased the dissolvability hazard. The present examination utilized the accompanying factors; size of review panel, size of board, number of non-official board individuals, and meeting of review advisory group, ROE, ROA and Tobin's Q. Baliga et. al., (1996)

demonstrated that CEO duality doesn't affect firm execution, though Chen et al. (2005) discovered negative connection between CEO duality and execution. Additionally, Guillet et. al., (2013), if there should arise an occurrence of eateries, discovered positive connection among duality and firm execution.

Jensen & Meckling (1976) confirmed that firm worth is affected by administrative proprietorship and the possession focus additionally impacted the firm execution. McConnel & Servaes (1990) discovered huge negative connection between administrative proprietorship and firm worth. Miguel et al. (2004) likewise discovered negative connection between these two previously mentioned factors. Mehran (1995) found no connection between significant investors and firm gainfulness. Comparable discoveries were archived by the Chen et. al., (2005) and portrayed that there was no connection among focus and firm worth. Then again, Thomsen et al. (2006) neglects to locate any generous connection between these two factors. Short (1994) utilizing single condition model discovered irrelevant connection between them. Fazlzadeh et al. (2011) additionally finds no proof for connection between possession focus and worth. Pathirawasam et al. (2012) discovered positive connection between concentrated possession and firms' presentation.

The vast majority of the investigations on the relationship of the corporate administration and firm execution have been completed in single nation setting. Caylor (2004) built up an exhaustive proportion of corporate administration including 51 pointers utilizing 2327 organizations as an example. The investigation found that better administration brings about more noteworthy productivity and high estimation of the organizations. Gompers et al. (2003) utilizing IRRS found that high influence and low value of investors brings about low worth and benefit for the organizations. They showed that those organizations were savored more noteworthy productivity as higher estimation of investors' value, firm worth, and improved deals development and lesser capital consumptions.

Jensen (2004) recommended that by constraining board size, the firm execution can be enhanced as bigger board size balance repayments with poor correspondence and moderate basic leadership process. Yermack (1996) investigated negative connection between board size and gainfulness. Anderson et al. (2004) found that cost of obligation is low in the event of bigger banks as obligation holders assumed better administration of these organizations. Darker & Caylor (2004) watched organizations having littler board size going from six to fifteen comparative with firms having bigger board size, expressed that their presentation fundamentally improved. The scientists likewise decided the effect of board freedom on execution yet neglected to locate their critical effect.

Fosberg (1989) additionally upheld the cynical connection between free executives and firm execution. Hermalin et al. (1991) additionally watched inconsequential connection between board autonomy and Tobin's Q proportion. Then again, Baysinger et al. (1985) and Rosenstein et al. (1994) saw positive effect on market an incentive by having autonomous chiefs. Brickley et al. (1994) noticed that connection between free chiefs and financial exchange reaction is sure. The writing alluded to budget reports and Tobins' Q as a proportion of gainfulness additionally demonstrated no affiliation, though the investigations that utilized stock return data for estimating productivity discovered positive connection (Hermalin et al., 1991; Bhagat & Black, 2002). Darker and Caylor (2004) led another investigation which estimated the gainfulness of the firm while utilizing a few budgetary markers. The model formulating Tobin's Q as a proportion of benefit didn't discover any connection, though autonomous executives have positive effect on ROE, NPM, and profit yields.

If there should be an occurrence of Pakistan, corporate administration is developed as a significant research zone. Cheema (2003) portrayed that corporate administration is fundamental for drawing in FDI in Pakistan. The professional workplace in Pakistan is highlighted with concentrated family control, coinciding directorship, and pyramid structures. The administration changes focused to minority investor assurance may lessen benefit amplification supportive gestures for family firms without giving

counterweighing advantages, for example, similarly watching chances by minority investors.

Rais et al. (2005) researched Corporate Governance Code 2002 in light of its application and usage in Pakistan to decide the elements of open basic leadership and to decide the ability of SECP in the zone of corporate administration. The examination inferred that the organizations were being roused to execute administration code; there are sure impediments in its basis and implementation. Ghani et al. (2002) decided the effect of business bunches on corporate administration in Pakistan utilizing non-monetary firm recorded in KSE and presumed that financial specialists as business gatherings apparatus to hold onto minority investors.

Ashraf & Ghani (2005) analyzed the stocks, progress, and the extension of bookkeeping rehearses in Pakistan and the elements that influenced them. The investigation reasoned that low speculator security, legal complications, and frail execution inventions are more basic variables than are social factors in light of bookkeeping rehearses in Pakistan. The examination proposed that execution system is one of the most significant components in improving bookkeeping quality in creating nations. The interest for deciding the effect of corporate administration on stock execution was improved however at the same time confronting a few issues.

Board creation and its impact on firm conduct were referred to as significant issue of today. As of late, the vast majority of the examinations have concentrated on board of executives (Jensen, 1993). The writing has utilized a few hypothetical contemplations to feature the highlights, job and effect of corporate administration (Corbetta et al. 2004). It isn't important to pick one of the hypothetical contemplations; rather a specialist can pick any of the better systems (Corbetta et al., 2004; Minichilli et al., 2009). Be that as it may, organization hypothesis has as often as possible been utilized as a hypothetical structure. Office hypothesis view organization as a tie of understanding that empowers a few members to execute with one another (Jensen & Meckling 1976). The money related execution of the organizations was likewise influenced by the no. of top

managerial staff present in the firm based on the organization hypothesis. The Jackling et al. (2009) further expressed that in the governing body essentially sway on the exhibition of the organizations.

Chief duality is a condition when CEO of the organization is likewise the administrator of BOD. According to authoritative hypotheses, it builds solidarity of order. In any case, promoters of organization hypothesis recommend that disregarding duality lessens CEO entrenchment. The exact examinations discovered blended outcomes in regards to CEO duality and execution. Hassan et al. (2013) started negative connection among duality and execution. Al-Saidi et al. (2013) indicated constructive outcome of duality on firm execution. Additionally, Nyamongo et al. (2013) uncovered that there was no connection among duality and execution of the organizations. In essence, it tends to be inferred that duality has in spite of the fact that cost at this point it has benefits for the association. Notwithstanding, which style is to be embraced relies upon the simultaneous states of the organization.

Untruth et al. (2007) expressed that administrative proprietorship has positive connection with firm execution. Hu and Zhou (2008) reasoned that organizations having administrative control surpass firms with absence of administrative control. Then again, a few investigations have demonstrated the negative connection between administrative possession and firm execution. Bokpin (2013), in the event of Ghana banks.

The exploration led by the augmentation of prior work by Quaresma, Pereira & Dias, (2014) demonstrated a critical connection between best CG rehearses and the money related execution of the organizations. They took Tier 1 notwithstanding ROA and ROE so as to quantify the money related execution of the organizations while CG was estimated by BOD autonomy, convergence of democratic influence and BOD size and the marker of association's freedom to investors. Data from yearly reports and budget summaries were accumulated from 16 recorded worldwide banks recorded in securities exchanges from US, Japan and Europe.

Great Corporate administration estimates assume a fundamental job so as to win the trust of partners which leads towards the improvement of money related execution of the organizations. Different tests like connection, relapse, f and t measurements were applied on the examination directed by Aggarwal, (2013). So as to check the effect of CG rehearses on the presentation of the organizations, information were accumulated from 20 Indian recorded organizations on CNX S and P 90-50 file. The consequences of the investigation demonstrated significant connection between firms' budgetary presentation and CG rehearses which showed that creating nations like India additionally centered much on CG rehearses for the advancement of their economy.

With the progression of time significance of CG practices to accomplish better money related execution is recognized by the higher administration in enterprises of each area. The organizations which received conventional measures to run and play out their tasks subsequent to coming into the competition had to center at the CG rehearse into the association. The examination led on the KSE recorded tractor firm so as to explore the connection among four different CG instruments (CEO position and condition, size of the board, yearly broad gatherings and size of review council) with that of (net revenue and profit for value) as money related execution pointers demonstrated blend results. With the assistance of different relapse and t-test measurements reliance and essentialness of the examination factors was checked by the scientists. The researchers reasoned that CEO and size of review board of trustees have immaterial association with profit for value determined by applying the OLS and board procedures. In addition the investigation likewise portrays that position of CEO has positive however state of CEO and review panel have inconsequential effect on net revenue of the business. The information was gathered from the reviewed budgetary reports and accounting reports of the organizations recorded at KSE from 2005 to 2013 by the Saifullah et.al., (2014).

Laeque, (2014) led an examination on 312 little organizations recorded at KSE so as to research the outcomes of CG factors on budgetary execution of these organizations. The specialist reasoned that successful CG practices are tenaciously connected with value market esteem, structure of possession in the firm, board size and piece and influence.

In addition the examination shows that productive adherence to CG standards builds the nature of expressed profit as well as improves the organizations' exhibition.

The examination led demonstrated the relationship and impact of CG rehearses on money related execution of Islamic banks of Pakistan by Haider, Khan & Iqbal (2015). They thought about size of board, number of BOD meeting and size of review council as free factors; then again monetary execution as a reliant variable was estimated by ROA, ROE and Earning per share. The scientists gathered both essential just as auxiliary information including budgetary reports of these organizations. The information was assembled from various Islamic banks of Pakistan over the time of 2008 to 2012. Direct relapse and connection tests were applied over the information by utilizing SPSS programming throughout their examination. They inferred that there is a noteworthy confirmed connection between the intrigue factors of the examination.

Javeed, Hassan & Azeem (2014) revealed that freedom of board and possession focus estimates influenced the organizations' money related execution altogether. They took 775 perceptions of 155 non-budgetary associations recorded at KSE structure 2008-2012. The outcomes additionally demonstrated that influence has inconsequential effect on CG measures. Burki & Ahmad (2008) read that open doors for riches augmentation of the associations can be expanded by embracing great CG rehearses. They dissected banks of private area when Merger and obtaining for their exploration. They depicted that practices of the great corporate administration of the organizations who were associated with the movement of the M and A didn't essentially improved.

Budgetary influence has huge effect on the CG practices of the organizations, specialists portrayed that influence can accomplish the organizations' worth or the riches augmentation objective intriguingly. They chose 15 KSE recorded firms of the material business of the Pakistan to lead the examination. Auxiliary information were accumulated from 2007 to 2011 from yearly articulations and accounting report examination of the organizations. Firm size and profit for resource were utilized as control factors of the examination while free factors were following, board size, review

advisory group size, monetary influence proportion, and the division of the CEO and the Chairman of the board (Tahir, Rehman & Rehman, 2014).

Tahir et. al., (2014) directed research study on material division of Pakistan so as to check the effect of CG segments over firms money related execution and reasoned that there is negative unimportant connection among CG and material part monetary worth. They took the information of 15 material firms recorded on KSE for the time of 2007-11. To figure the outcomes relapse and relationship test were applied on the information Azeem, Hassan & kousar (2013) expressed that CG has critical effect on monetary execution of the organizations. They additionally reasoned that bookkeeping guidelines adjustment have no significant relationship on CG with that of firms monetary execution. As per the finish of the examination directed firms with high influence proportion demonstrated the moderate connection between CG rehearses and the money related execution of the organizations.

Olubukunula & Samuel (2012) directed an exploration to evaluate the impact of size of board on the monetary exhibition of the banks. Nigerian banks were chosen for their examination and relapse model was utilized to break down the information. They found that size of the board has negative effect on the monetary presentation of banks. Based on consequences of their examination they additionally asserted that office cost is contributed by the organizations with the structure having huge number of BOD's. Comparative investigation was directed by utilizing 33 organizations for the time of two years 2010-2011 from oil and gas, assembling and money related firms of Nigeria. Subsidis & Bagshaw (2014) recommended that there is have to take cautious activities in required consistence with security and trade commission in all the segment that were chosen with the end goal of research. Additionally the administrative body of these parts ought not just comply with the CG rehearses in the most ideal manner yet in addition attempted to meet the desires for the partners so as to improve the money related execution of these divisions of Nigerian firms. Expressive measurements investigation was applied on the information which was taken from the site of security and trade commission of Nigeria and the official sites of these organizations.

Another significant research study was directed in Pakistan to measure the effect of CG rehearses on the organizations' budgetary presentation. Qadir, Rameez & Awais (2010) chose the recorded firms on the KSE from the assembling part to be specific, pharmaceutical and the concoction area. They broke down the information with the assistance of relapse model and aftereffects of the examination delineated the irrelevant effect of the corporate administration on the organizations as far as profit for resource; while in actuality return on value had noteworthy impact on the presentation of the organizations in general.

Comparable research was directed in non-money related part of Pakistan. Information was accumulated from the 22 non-money related organizations which were recorded on the KSE. ROA, ROE and NPM were utilized as reliant factors in the examination while size of firm, period of firm, CEO duality and size of the board were taken as autonomous factors. Latief, Raza & Gillani (2014) in their investigation inferred that exhibition of the organizations was essentially affected by size; period of firm and size of the board while CG practices like free chiefs and size of the board has irrelevant effect on budgetary execution. The specialists utilized cross area relapse, Descriptive insights and Pearson relationship lattice systems for the request of the information were utilized. In another exploration Tobin's Q was taken as reliant variable with that of ROE and ROA and size of firm, capital force and influence of the firm and working edge were taken as free factors by Sami et. al., (2011). The specialists inferred that CG rehearses and monetary execution of the associations has positive and critical relationship.

In budgetary administration writing, the connection among influence and firm worth has been widely talked about. Most specialists have put together their works with respect to pioneer work of Modigliani & Miller (1958) whose work is well known as immaterial hypothesis expressed that influence was not identified with firm an incentive in impeccable condition. The hypothesis controlled the effect of government charge framework, expansion rate and cost of exchanges. The hypothesis was dependent upon severe analysis for their suspicions that in genuine world, the organizations can't work in condition where expansion, assessment or exchange cost has not effect on firms. The

denigration energized Modigliani & Millar (1958) to work mulling over this analysis. In reestablished hypothesis, they again contended that variety paying off debtors to value proportion didn't influence firm esteem.

2. 4 Hypotheses of study

H₁: There is a positive relation between the board size and the return on asset

H₂: There is positive association between the board independence and the return on asset

H₃: There is an optimistic linkage between the firms' no. of board meetings and the return on asset

H₄: There is positive relationship among the firm size and the return on asset

H₅: There is positive influence of the firms' age on the return on asset

H₆: There is a positive relation between the board size and the return on equity

H₇: There is confident association between the board independence and the return on equity

H₈: There is an optimistic linkage between the firms' no. of board meetings and the return on equity

H₉: There is positive relationship among the firm size and the return on equity

H₁₀: There is positive influence of the firms' age on the return on equity

H₁₁: There is a positive relation between the board size and the net profit margin

H₁₂: There is confident association between the board independence and the net profit margin

H₁₃: There is an optimistic linkage between the firms' no. of board meetings and the net profit margin

H₁₄: There is positive relationship among the firm size and the net profit margin

H₁₅: There is positive influence of the firms' age on the net profit margin

H₁₆: There is a positive relation between the board size and the earnings per share

H₁₇: There is confident association between the board independence and the earnings per share.

H₁₈: There is an optimistic linkage between the firms' no. of board meetings and the earnings per share

H₁₉: There is positive relationship among the firm size and the earnings per share

H₂₀: There is positive influence of the firms' age on the earnings per share.

2.5 THEORETICAL FRAMEWORK



Independent variables

Dependent variables

	Measures of Corporate Governance		Proxies of Financial Performance	
1	BS	Board Size	ROA	Return on Assets
2	BI	Board Independence	ROE	Return on Equity
3	BM	No of Board Meetings	EPS	Earnings per Share
4	FS	Firm Size	NPM	Net Profit Margin
5	FA	Firm Age		

CHAPTER 3 MATERIALS & METHODS

3.1 Introduction

The current chapter of this study indicates the detailed discussion of various stages employed through which research study has been carried out. This chapter includes the comprehensive description of applied variables and operational definitions. It also contains the ample details of the various steps taken regarding the data collection, population and sample size choice and the complete research design. In this part of the study data analysis methods and various statistical test applied on data are also mentioned.

3.2 Scheme of study

The current portion of the study stated that it is an exploratory research. Secondary data has been collected from 2009- 2018 for the sixteen banks operating in Pakistan. The data has been collected to measure the impact of CG practices on the performance of banking sector in Pakistan. Data has been collected from the annual reports and financial statements of banks operating in Pakistan under the rule and regulations of SBP. Data is also collected from the website of the Pakistan Stock Exchange (PSE). The secondary data has been gathered from the published reports of the banks and in this data the disturbance and intrusion is the insignificant and the trivial. The study has been conducted in the non-contrived setting. Panel data has been collected for the study and the unit of the analysis is the individual organization (bank). Data has been analyzed with the help of the E-Views and Regression test, Fixed Effect Model (FEM) and Random Effect Model (REM) are used in this study.

3.3 Procedure of research

3.3.1 Data collection Sources

The current study aims to measure the impact of CG practices on the financial performance of the banks and to gauge this relationship various independent and dependent variables were employed. This is a quantitative study and is based on the

secondary data. To assess the impact of the CG on the banks financial performance, return on assets, net profit margin, return on equity and earning per share ratios are taken as the dependent variable of the study. Board size, board independence, number of annual general meetings, firm age and firm size are taken as the independent variables of the study. Data for both dependent and independent variables are collected from the annual financial reports of the banks which are easily available on their respective websites and as well as on the official website of the State Bank of Pakistan (SBP) (www.sbp.org.pk).

3.3.2 Population and sample size of the study

The number of inhabitants in the present investigation incorporates the scheduled banks working in Pakistan under the supervision and guidelines of the Central Bank of the country, State Bank of Pakistan (SBP). While the sample size of this investigation includes the sixteen banks which are working in the Pakistan from the most recent two decades. The sample size of the present examination is chosen based on the simple random sampling technique. This sampling method implies that 'A likelihood examining plan in which each and every component in the population has a known and equivalent shot of being chosen as subject' (Sekaran & Bougie, 5e). Following banks has been selected to carry out the study. First Women Bank Ltd, National Bank of Pakistan, The Bank of Punjab, The Bank of Khyber, and the Zarai Taraqati Bank Limited, Allied Bank Limited, Askari Bank Limited, Bank Alfalah Limited, Bank Al Habib Limited, Faysal Bank Limited, Habib Bank Limited, Habib Metropolitan Bank Limited, Muslim Commercial Bank Limited, Standard Chartered Bank Limited, NIB Bank Limited and the United Bank Limited are chosen. For each bank, multiyear information from 2009-2018 are gathered for the every variable of the investigation. A list of the banks is given in the appendix.

3.3.3 Data Analysis Techniques

Statistical insights are connected on the data for measuring the mean, median, standard deviation estimations and the independent variables of the present

investigation (Latief.et.al., 2014). Alongside the graphic insights, relationship investigation is likewise connected with the statistics. 'Investigations are done to follow the common impact of the factors on each other', (Sekaran and Bougie, 5e).

Relapse test, Fixed Effect Model (FEM) and Random Effect Model (REM) with the assistance of E-Views programming 8.0 is connected on the information based on the causal idea of the variables of study. Following variables are utilized as the dependent variables to quantify the firm performance; ROA, ROE, NPM and the EPS. To gauge the effect of the corporate governance following heads is utilized as the intermediaries of the CG; board size, board independence, no. of the executive gatherings, firm age and the firm size. While board size, independent chiefs, number of executive gatherings, review advisory group size and firm age and the firm size as the independent variables, (Ntim & Osei, 2011; Joshua, Joshua & Tauhid ,2013). Be that as it may, the present examination utilizes the mix of factors with to some degree changes as Return on Assets (ROA), Return on Equity (ROE), Net Profit Margin (NPM) and Earnings per Share (EPS) as a proportion of firm execution. EPS variable is utilized by Desai & Jain (1999).

3.3.3.1 Econometric Analysis

In this current study the two various econometric methodologies are employed to measure the impact of CG practices on banks financial performance, namely are Fixed Effects Model and Random Effects Model. To compare and contrast the both models result Hausman test is used (Huizinga & Demirguc-Kunt, 1999; Flamini *et al.*, 2009; Athanasoglou *et al.*, 2005 and Saona, 2011). Four dependent and five independent variables are used in the study. The empirical form of the model is as follows:

$$FP_{it} = \alpha + \sum_{k=1}^k \beta_k Y_{it}^k + \epsilon_{it}$$

FP = Financial Performance (dependent variable)

$it = i$ is individual unit and t is the time period

α = unobserved individual effect

β = Independent variable

ϵ = Error term

For the current study following equations, using the four dependent variables are developed.

$$ROE = a + b_1BS + b_2BI + b_3BM + b_4FA + b_5FS + e$$

$$ROA = a + b_1BS + b_2BI + b_3BM + b_4FA + b_5FS + e$$

$$NPM = a + b_1BS + b_2BI + b_3BM + b_4FA + b_5FS + e$$

$$EPS = a + b_1BS + b_2BI + b_3BM + b_4FA + b_5FS + e$$

ROE = Return on Equity

ROA = Return on Assets

NPM = Net Profit Margin

EPS = Earnings per Share

a = Unobserved individual effect

BS = Board size

BI = Board Independence

BM = Board Meetings

FA = Firm Age

FS = Firm Size

e = error term

3.3.3.2 Fixed-Effects (FE)

Fixed Effects model investigates the connection between independent variables and dependent variables inside a unit that might be a bank, singular organization or an administration. The present analysis has taken the banks which to check the effect of the CG practices on their financial demonstration. Fixed – Effect model is pushed off when the analyst is engaged to gauge the effect of just time variation factors. In this FE model, distinguishable impact which is invariant is assessed to be a piece of steady. Also, the blunder term is worthy to be related with other independent factors. Along these lines, the condition for FE model is as per the following:

$$FP_{it} = (\alpha + \mu_i) + \sum_{k=1}^k \beta_k Y_{it}^k + \epsilon_{it}$$

Whereas FP_{it} is the dependent variable, firm performance for i th bank at t time, where $i = 1, 2, 3, \dots, n$ and $t = 1, 2, 3, \dots, t$. α is constant, μ_i is the individual effect, Y_{it}^k is the vector of explanatory / independent variables and ϵ_{it} is the characteristic error.

3.3.3.3 Random – Effect (RE)

Dissimilar to previous model (FE), Random Effect model hypothesizes that cross sectional factors have arbitrary change and uncorrelated with autonomous variables in the model beneath (Green, 2008, p.183). The fundamental guideline of Random Effect (RE) model is that error term is uncorrelated with informative factors that permit time invariant factors to be required as a forecaster variable. The consequences of Random Effect model might be unpredictable out of test. The equation of random effect model is given below.

$$FP_{it} = \alpha + \sum_{p=1}^p \beta_p Y_{it}^p + \sum_{q=1}^q \beta_q Y_{it}^q + \epsilon_{it} + \mu_i$$

Green 2008, (chapter 9) states that Hausman test is generally employed to make a choice among the fixed effect (FE) model and Random Effect (RE) model. Hausman

test is succession where the invalid speculation is that random effect model is striking than fixed effect model (Green 2008, section 9). The Hausman test controls and finishes up whether ϵ_{it} (error term) is related with explanatory/ independent variables in the model or not. The null hypothesis clarifies that they are not connected. The endorsement null hypothesis of (or dismissal of the null hypothesis) prescribes that random effect model to be utilized.

3.4 Variables and Operational Definitions

3.4.1 Financial Performance Indicators

Financial performance of any firm is generally viewed how efficiently and effectively a firm is using its assets in primary operations in order to generate profits and to increase the wealth of shareholders. Kothari (2001) defines the value of an organization in the following words, after the adjustment of suitable rate of return a firm sets its present value of its expected cash flows in future. According to Eyenubo (2013) value of a firm is to meet its goals, targets and objectives successfully within a definite time period.

3.4.1.1 Return on Asset (ROA)

Weir & Laing (1999); Finkelstein & Aveni (1994) stated that ROA is an extensively used accounting based measure of performance of firm. Return on assets is the earning made by an organization by investing in its capital assets Epps & Cereola (2008). In other words ROA is the measure of total earnings that have been made by a firm from investment in capital assets. It permits all the stakeholders, users and different agencies to evaluate how effectively and efficiently mechanism of corporate governance of the firm is motivating and securing the firm's management (Chagbadari, 2011). The return on assets can be calculated by dividing the annual net income ratio to total asset average through the financial year of a business. ROA is calculated by the given formula

$$\text{ROA} = \text{Annual gross Income} / \text{Total asset average}$$

3.4.1.2 Return on Equity (ROE)

The primary and main objective of a firm is to increase the wealth of an organization by generating profits for the sake of benefits of all the stakeholders and its investors. In CG research return on equity is the accounting base measure of the performance of the firm (Dehaene et al., 2001; Baysinger & Butler, 1985). Thus ROE gives the clear picture to the investors of the firms about the generated profit from the invested money of the shareholders of the organization (Epps & Cereola 2008). It deals with the shareholder's profitability from the investments. ROE can be calculated by annual net income divided by the shareholders equity. Its formula is given below

ROE = Annual Net Income/Average of Shareholders equity

3.4.1.3 Net Profit Margin

Net profit margin is the proportion of the revenue which is left after taxes, interest and operating expenses from the firms overall revenue. Firms with greater NPM considered having robust financial position Tugas & CPA (2012). It is calculated by the following formula

NPM= Net profit after taxes / sales revenue

3.4.1.4 Earnings per share (EPS)

Earnings per share are the portion of profit which is earned by the company and distributed it to its common stock shareholders. In other words it is the quantity of amount of earning per share which is available for the common shareholders of the firm Ashfaq (2014). EPS is calculated by the following formula

EPS = Net income/average of outstanding shares

3.5 Mechanisms of Corporate Governance

CG mechanism is the system and process by which a firm's CG codes and laws are imposed (Adekoya, 2012).CG mechanisms relates to the techniques, instruments and the tools by which accountability of the firms is ensured, it is also the medium by which stakeholders of the organization evaluate and monitor the set objectives and goals of a firm. This research considers CG mechanisms from the perspective of size of board, board independence, annual general meetings, firm size and the age of the firm.

3.5.1 Board Independence

Total number of the non-executive directors or the independent directors divided by the total number of the directors on the board, (Latief et al., 2014; Zaman et al., 2015).

3.5.2 Board size

It encompasses the total number of members which are the part of the board. Board size is calculated as follows, ‘Natural Log of total number of members in board (Latief et.at., 2014).

3.5.3 No. of Board Meetings

Total number of the board meetings held during the year. It shows the total number of meetings held in the corporation. It displays that how many times board of directors meet during the specific time period say one year, (Tariq et. al., 2014).

3.5.4 Firm size

Natural Log of the total assets of the firm’, (Latief et.al., 2014 ; Zaman et.al., 2015).

3.5.5 Firm age

‘Total number of years a firm is established’, (Latief, Raza & Gillani, 2014).

CHAPTER 4: RESULTS & DISCUSSION

4.1 Introduction

Chapter 4 displays results of the study. It provides the numerical results after applying the statistical tests on the data set. This section notifies the tables and their narration in detail.

The Table 4.1 specifies the results of the descriptive analysis applied on the interest variables of the study. Table 4.2 shows the values of the correlational analysis. The next tables from 4.3 to 4.6 show the results of the regression analysis.

4.2 Descriptive Statistics

The table 4.1 shows the results of the descriptive statistics applied on the data set. The descriptive statistics are measured for both the dependent and independent variables of the study. The independent and dependent variables of the current study are stated as board size (BS), board independence (BI), board meetings (BM), firm size (FS) and the firm age (FA) and ROA, ROE, NPM and the EPS respectively.

The mean value of the BS is 8.876 while its standard deviation is 11. The abnormality of data is confirmed by the results of Jarque – Bera test. The BI displays the mean value of 8.665 and SD of 13.683. Probability of Jarque-Bera is 0.00000 which approves the abnormality of data. Third independent variable is board meetings which has the mean and SD values of 9.090, 12.788 respectively. The Jarque- Bera settles abnormality of the data set. The mean values for the firm size and the firm age are as follows, 8.686 and 12.622. Mean values are deviated 11.616 and 8.456 for the firm size and firm age respectively. The Jarque-Bera and the probabilities values for the both variables are momentous. For the FS values are 0.00000 and for the FA 0.000000 respectively which endorses the abnormality of the data.

Now the descriptive statistics for dependent variables are discussed. Mean value is deviated 11.490 for the (EPS) earnings per share. The probability of Jarque-Bera is 0.00000. The mean value for the net profit margin is 11.066. Mean value is deviated 36.602 for the net profit margin. The value of Jarque- Bera statistics is 26985.38. The mean value of return on equity is 14.999 which show that average return on equity is 15 in the data. The Jarque- Bera has 0.0000 probability. The mean value of return on assets is 4.651 which indicate that the average return on assets is 5. Mean value is deviated 8.907 for the return on assets. The Jarque- Bera statistics value is 69.975.

Table 4.1 Descriptive Statistics

	BS	BI	BM	FS	FA	EPS	NPM	ROE	ROA
Mean	8.876	8.665	9.090	8.686	12.622	11.490	11.066	14.999	4.651
Median	2.397	0.875	2.397	3.850	11.928	4.443	14.500	16.700	1.790
Std. Dev.	11.207	13.683	12.788	11.616	8.456	10.649	36.602	14.001	8.907
Skewness	1.010	2.343	0.452	2.154	4.006	1.994	-7.127	-0.102	0.716
Kurtosis	5.902	12.055	4.658	10.109	22.794	9.596	66.405	4.4722	5.926
Jarque-Bera	112.63	703.288	23.801	460.676	3040.24	396.208	26985.38	14.732	69.975
Probab.	0.00000	0.00000	0.000007	0.000000	0.000000	0.000000	0.000000	0.0006	0.00000
Sum	1402.07	1477.13	1294.54	1258.628	2179.583	1311.932	1727.809	2459.193	691.796
Sum Sq. Dev.	24123.6	34280.0	22433.96	18122.45	8839.503	18031.31	201168.2	31172.59	12616.69
Observ.	160	160	160	160	160	160	160	160	160

4.3 Correlation Analysis

The table 4.2 displays the correlation results. In this table association forte of the independent and dependent variables are of the study is presented. The results show a mixture of strong and weak relation as well as negative and positive correlation. The results of correlation matrix also discloses that correlation values between the independent variables are small and signifying no severe problem of multicollinearity.

The correlation analysis shows robust optimistic relation of EPS with BS, BI, FA and FS. The correlation between EPS and BS is 0.6719, Between EPS and BI is 0.6068, between EPS and FA is 0.6520 and the correlation of EPS and FS is 0.0207. However weak relation and negative relation is found between EPS and BM. The correlation of EPS and BM is -0.1207.

The correlation results of NPM displays confident but feeble relation of NPM with BS, BI, BM, FA and with FS. The correlation between NPM and BS is 0.4944, between NPM and BI is 0.2567, between NPM and BM is 0.4320, between NPM and FA is 0.2588 and the correlation between NPM and FS is 0.2644.

The results of correlation analysis of ROE show positive and stout relation of ROE with BS, BI, BM and FA. The correlation between ROE and BS is 0.6363, between ROE and BI is 0.5894, between ROE and BM is 0.5864 and the correlation between ROE and FA is 0.5588. The results show positive but relatively weak relation of ROE with FS. The correlation between ROE and FS is 0.4570.

The correlation results of ROA display both positive and negative correlation with independent variables of the study. The result shows positive and strong correlation of ROA with BS and BM. The correlation between ROA and BS is 0.6506 and the correlation between ROA and B is 0.6502. The results show affirmative but feeble correlation of ROA with FA. The correlation between ROA and FA is 0.4072 and the correlation between ROA. The results also show negative and weak relation of ROA

with BI and FS. The correlation of ROA and BI is -0.1563 and the correlation of ROA and FS is -0.0208.

Table 4.2 Correlational Analysis

	BS	BI	BM	FA	FS	ROA	ROE	NPM	EPS
BS	1								
BI	0.3827	1							
BM	0.3160	-0.1612	1						
FA	0.8407*	0.3837	0.1477	1					
FS	0.7007*	0.5979*	-0.1481	0.7257*	1				
ROA	0.6506*	-0.1566	0.6612*	0.4072	-0.0208	1			
ROE	0.6363*	0.5894*	0.5864*	0.5588*	0.4570	0.4414	1		
NPM	0.4944	0.2567	0.4320	0.2588	0.2644	0.4366	0.5959*	1	
EPS	0.6719*	0.6068*	-0.1207	0.6520*	0.8577*	0.0207	0.5739*	0.3237	1

Level of Significance: 0.05

4.4 Regression Analysis (FEM & REM)

In model 1, using Fixed Effect Model (FEM), these independent variables such as BS, BI, BM and FS has shown positive and significant results. Whereas FA is established as insignificant. BS has coefficient of 0.19 at importance level of 10%. BI has coefficient -0.14 at significant level less than 5%, BM has coefficient 0.63 at significant level less than 1% and FS has coefficient of 1.05 at significant level less than 1%. The results indicate that BS, BM, and FS have significant positive impact on ROE, whereas BI and FA are found to be insignificant. Comprehend results in the table 4.3 given below.

In model 1, using Random Effect Model (REM), BS, BI, BM, and FS are established to be significant and FA is found irrelevant. BS has coefficient of 0.18 at significant level

less than 5%, BI has coefficient 0.13 at significant level less than 1%, BM has coefficient 0.81 at significant level less than 1%, and FS has coefficient of 0.78 at significant level less than 1%. The results indicate that BS, BI, BM and FS have significant positive impact on ROE whereas FA is found to be insignificant.

The Hausman test shows that fixed effect model (FEM) is recommended to be used as Chi-Sq. value is 89.51 at significant level less than 1%. FEM has R-square value of 0.92 and that of adjusted r-square is 0.91. The F-stat is also found to be momentous at less than 1%.

In FEM, the outcomes are steady with past research studies. For instance, the study discovered positive effect of BS on firm execution utilizing ROE. This outcome matches with previous research for instance Latief, Raza & Gillani (2014) Adams & Mehran (2012) expressed that firm's demonstration is fundamentally emphatically influenced by BS. Consequences of the present investigation delineates that board size has coefficient estimation of 0.18 at huge level under 10%. BI has additionally positive impact on the performance of the organizations. Current investigation results FEM model of BI on firm performance additionally coordinates with prior research study as Bahreini & Zain (2013) Lefort & Urzua (2008) Mashayekhi & Bazazb (2008) expressed that BI has positive huge association with firms' performance.

In FEM BI has coefficient -0.13 at significant level less than 5%. We found BM has significant impact on the performance of the organizations which relates with the previous literature for instance Haider, Khan & Iqbal (2015) found positive relationship of firm performance with that of BM. Current study results of FEM shows that BM has coefficient .81 at significant level less than 1%. FS in the last has also positive impact on the performance of the company according to the results which are obtained in FEM. Results shows that FS has coefficient of 0.78 at significant level less than 1. The results of the current study matches with the previous results of Latief, Raza & Gillani (2014). They also found performance of the firm is also positively impacted with FS. FA has

insignificant relation with firms' performance previous literature results of Latief, Raza & Gillani (2014) matches with the results of the current study results.

Table 4.3 ROE Regression Results

Model 1		Random Effect Model		
Dependent Variable: ROE				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-3.622084	1.483239	-2.442010	0.0157
BS	0.194607	0.089478	2.174917	0.0312
BI	0.117151	0.042869	2.732765	0.0070
BM	0.713253	0.047481	15.02194	0.0000
FS	0.675926	0.115138	5.870571	0.0000
FA	0.044208	0.096825	0.456571	0.6486
R-squared	0.768236	F-statistic	84.52583	
Adjusted				
R-squared	0.759147	Prob(F-statistic)	0.000000	

impact on ROA and FS has negative and significant impact on ROA. See table 4.4 given below.

The Hausman test shows that REM is to be used as chi. Square is found to be insignificant having value 8.95. REM has r-square value 0.92 and adjusted r-square value 0.92 too.

In model 2 REM results are predictable with that of previous research studies. For example by utilizing ROA current investigation discovered BS has critical effect on firms' performance. The outcomes coordinate with the study of Laeeque, (2014) Adams & Mehran (2012) and Cheng (2008). BS of current examination has coefficient of 0.95 at critical level under 1%. BM has coefficient of 0.058 at huge level under 1% which demonstrates that BM has noteworthy effect on firms' performance. It relates with the results of the study of Haider, Khan & Iqbal (2015). FS in the latter is found to have negative and noteworthy effect on the demonstration of the firm. Coefficient of FS of the present examination has estimation of - 0.81 huge level under 1% which matches with the study of Latief, Raza & Gillani (2014) Sami et. al., (2011).

Table 4.4 ROA Regression Results**Model 2 Fixed Effect Model****Dependent Variable: ROA**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	7.415106	0.308255	24.05513	0.0000
BS	0.956918	0.023697	38.65058	0.0000
BI	0.004384	0.011552	0.379493	0.7049
BM	0.058441	0.012151	4.406444	0.0000
FS	-0.754876	0.028590	-29.90105	0.0000
FA	0.001124	0.025476	0.044134	0.9649
R-squared	0.990669	F-statistic		697.6798
Adjusted				
R-squared	0.989249	Prob(F-statistic)		0.000000

Model 2 Random Effect Model

Dependent Variable: ROA

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	7.407842	0.942052	7.863516	0.0000
BS	0.970104	0.023478	38.76361	0.0000
BI	0.001096	0.011432	0.095852	0.9238
BM	0.057561	0.012052	4.726301	0.0000
FS	-0.811334	0.028421	-29.95458	0.0000
FA	0.003231	0.025264	0.127907	0.8984
R-squared	0.921379	F-statistic		865.4592
Adjusted				
R-squared	0.920257	Prob(F-statistic)		0.000000

Model 2 Hausman Test

Test Summary	Chi-Sq.	. d.f.	Prob.
Cross-section random	8.951378	6	0.1263

In model 3, using FEM, BM, BI and FS have noteworthy coefficients and BS, FA have inconsequential coefficients. BM has positive coefficient of 0.156 at less than 1%, BI has positive coefficient of 0.05 at less than 5% and FS has positive coefficient of 1.13 at less than 1%.

Using REM, BM, BI and FS have shown momentous coefficients and BS, FA has insignificant coefficients. BM has positive coefficient of 0.09 at less than 5%, BI has positive coefficient of 0.03 at less than 5% and FS has positive coefficient of 0.85 at less than 1%.

The Hausman test shows that FEM is to be used as chi. Square is 26 at less than 1%. R-square FEM is 0.93 and adjusted r-square is 0.88. Table 4.5 specifies the values below.

The consequences are dependable with that of the literature using EPS as a measure of performance. BM is found to be meaningfully optimistic. The results are also found by (Zaman et al., 2015). In case of BI, the study found confident impact on EPS. Taking FS as an explanatory variable, current study found positive relation between FS and performance that is formerly presented the related results with (Gillani et al., 2014).

Table 4.5 EPS Regression Analysis

Model 3		Fixed Effect Model		
Dependent Variable: EPS				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-7.562336	1.127192	-6.709002	0.0000
BS	-0.057306	0.086654	-0.661313	0.5095
BM	0.156774	0.044431	4.001088	0.0001
BI	0.051700	0.015111	2.031720	0.0441
FS	1.130814	0.104545	9.572999	0.0000
FA	0.106022	0.093158	1.138095	0.2571
R-squared	0.932697	F-statistic	68.70044	
Adjusted				
R-squared	0.889412	Prob(F-statistic)	0.000000	

Model 3 Random Effect Model**Dependent Variable: EPS**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-6.904717	1.334621	-5.173540	0.0000
BS	0.056662	0.076881	0.737009	0.4622
BI	0.034226	0.037016	1.167761	0.2447
BM	0.095436	0.040209	2.321276	0.0216
FS	0.858342	0.096821	9.268020	0.0000
FA	0.048180	0.083221	0.578942	0.5635
R-squared	0.713244	F-statistic	63.42586	
Adjusted				
R-squared	0.701999	Prob(F-statistic)	0.000000	
Model 3		Hausman Test		
Test Summary		Chi-Sq.	d.f.	Prob.
Cross-section random		26.197087	6	0.0001

In model 4 using FEM, the current study found BS, BM, and FA noteworthy and BI, and FS as irrelevant. BS has noteworthy coefficient of 5.21 at less than 1%, BM has coefficient of 0.55 at less than 5%, and FA has negative and significant coefficient of -3.4 at less than 1%. Other variables are insignificant including BI, and FS. Values are given below in table 4.6.

Using REM, it is found BS, BM, BI and FA noteworthy and FS as insignificant. BS has significant coefficient of 4.18 at less than 1%, BM has coefficient of 0.51 at less than 5%, has positive significant coefficient of 0.25 at less than 10%, and FA has negative and significant coefficient of -4.25 at less than 1%. Other variables are insignificant including BI, and FS.

The hausman test shows that FEM is to be used with chi. Square 28.52 at significant level less than 1%. The results in model 4, the results are consistent with Gillani et.al.(2014) found in literature. FA is also established to be confidently associated with performance measured with NPM.

Table 4.6 NPM Regression Analysis

Model 4		Fixed Effect Model		
Dependent Variable: NPM				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-6.804609	7.294951	-0.932783	0.3526
BS	5.215994	0.558713	9.156742	0.0000
BI	0.055513	0.272255	0.185535	0.8531
BM	0.603617	0.286359	2.107905	0.0369
FS	0.150396	0.674031	0.223128	0.8238
FA	-3.459906	0.601354	-7.599356	0.0000
R-squared	0.677368	F-statistic		13.69678
Adjusted				
R-squared	0.627913	Prob(F-statistic)		0.000000

Model 4		Random Effect Model		
Dependent Variable: NPM				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-7.509727	7.397975	-1.015106	0.3117
BS	4.186499	0.450307	8.408704	0.0000
BI	0.242861	0.215564	1.126630	0.2617
BM	0.510965	0.241363	2.531312	0.0124
FS	-0.254008	0.586857	-0.262428	0.7933

FA	-4.252949	0.487320	-6.264773	0.0000
R-squared	0.465870	F-statistic	22.09583	
Adjusted R-squared	0.444786	Prob(F-statistic)	0.000000	
Model 4		Hausman Test		
Test Summary	Chi-Sq.	d.f.	Prob.	
Cross-section random	28.524540	6	0.0001	

Table 4.7: Summarized view of the study Hypotheses

Does financial performance of banks is affected by corporate governance? Evidence from Pakistani Banks.				
1	H1	Accepted	H11	Accepted
2	H2	Accepted	H12	Accepted
3	H3	Accepted	H13	Accepted
4	H4	Rejected	H14	Accepted
5	H5	Accepted	H15	Rejected
6	H6	Accepted	H16	Rejected
7	H7	Accepted	H17	Accepted
8	H8	Accepted	H18	Accepted
9	H9	Accepted	H19	Accepted
10	H10	Rejected	H20	Accepted

CHAPTER 5: CONCLUSION

Corporations are the foremost and critical institutions in an economy of any country. They play a vital role in evolution and development of economy of a country. Corporations can be divided into many types according to their various prominent features such number of employees (small firms, medium sized or large firms) capabilities, hierarchy and functions they perform around the globe. In these times of technology and globalization where governments have now less control over them, they have to perform and fulfill functions and liabilities. As these corporations own the shareholders wealth (debt financing), so they are accountable to them and legally responsible to show and maintain their certain performances and financial reports. The study conducted by Crane & Matten (2007) stated that the economies of the countries are benefitted by the rational practices and good corporate governance of the companies and their activities of corporate social responsibilities also have good impact on the wellbeing of the societies in which they operate.

The importance of corporate governance practices cannot be over emphasized globally since the scandal and failure of many well reputed companies such as Enron. So the various governments and their regulating bodies for organizations has already enhanced and tighten the measures to control breach of sensitive matters relating to the corporate governance and to safeguard the rights of shareholders or investors in the free financial markets or within the corporations (Kirkpatrick, 2009).

Therefore, the current research study has explored this does the financial performance of Pakistani banks is affected by the practices of corporate governance by incorporating the various independent and dependent variables. Independent variables of the study are Board size (BS), Board Independence (BI), Board meetings (BM), Firm size (FS) and Firm age (FA) and dependent variables of the study are Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM) and Earning per share (EPS). The study has used the quantitative data taken from the annual financial reports of the sixteen banks from 2009 to 2018. For this panel data, two statistical techniques namely

Fixed effect model and Random effect model are employed in this study to measure the impact of CG practices on the financial performance of banks.

Results demonstrate that BS has positive and huge effect on banks performance utilizing ROA, ROE and NPM, while BS is observed to be immaterial utilizing EPS as a description measure. BI is found to have positive effect on performance utilizing ROA and EPS, while it is observed to be immaterial for ROE and NPM. BM is found to have positive effect utilizing all models for example ROE, ROA, NPM and EPS. FS is seen to have intermingled effects for example positive effect on performance utilizing ROA and EPS, negative utilizing ROE, and irrelevant utilizing NPM. At long last, FA is observed to be immaterial on all models with the exception of model 4 for example it has no effect on ROE, ROA and NPM, though it is found to have negative effect on EPS.

5.1 Study Recommendations

The study concludes that the financial performance of Pakistani banks improves by the practices of corporate governance. CG is the arrangement of principles and methods to control and monitor banks transactions, and it conveys procedures / rules to the top decision-making bodies how to run the undertakings and an upsurge in investor esteems and bank proficiency can be upgraded. Cooperation of independent directors in board synthesis increases the board competence and shields the benefits and privileges of investors. Sufficient number of meetings in a year handles corporate dealings better and builds the banks performance. The results of this examination show that corporate governance has huge effect on financial performance of banks.

The current study objects for imperative policy enactments to lessen disproportionateness found in the information and improve corporate governance (CG) and firm performance in banking sector of Pakistan. High level of pellucidity and revelation can be employed as trust enhancement tool in order to capitalize on the value of the business. The current study proposes that slightest exposure or disclosure level of the banks should be above prerequisite of watchdog authorities to cope up the undue disclosure benefits enjoyed by the banks.

5. 2 Limitations of the study

Here are some limitations of the current study due to the constraints of time and money faced by the research scholar.

1. The primary limitation of the current study is it has only taken into consideration the banking sector of the Pakistan and has not included the other sectors of the economy such as cement industry, textile industry and pharmaceutical industry and so on.
2. The current study also does not include all the banks operating in Pakistan. So any future study can be conducted by covering the complete banking sector of the country.
3. This study has used quantitative data set. The other studies may use other forms of data set such as qualitative data to validate and increase the scope of the results in general.
4. Last but not the least, the current study has chosen the time frame for the study after the time period of financial crisis of 2008, the future studies can use the data before 2008 to compare pre and post the financial performance of the sector. The consequences of study should be taken in sprightly of these boundaries and the approaching researchers should try to overcome them though undertaking more research in this area.

5.3 Future Recommendations

The investigation of banking sector has confirmed that there is a relationship of CG practices with firms' financial demonstration. Anyway this examination has concentrated just five proportions of corporate governance, such as (board size, board independence, number of executive meeting, firm size and firm age) there is a need to research other external variables and control determinants and components of corporate governance. Further research can likewise be led by accepting different proportions of execution as the ebb and flow study is constrained to return on assets (ROA), return on equity (ROE), income per share (EPS) and net benefit margin (NPM) to quantify the organizations performance. Future research can be done by taking different elements to gauge the effect of corporate governance on the performance.

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Appendix: List of Sample Banks

ABL	Allied Bank Limited
HBL	Habib Bank Limited
BA	Bank Alfalah
UBL	United Bank Limited
FBL	Faysal Bank Limited
ZTBL	Zarai Tarakyati Bank Limited
MCB	Muslim Commercial Bank
NIB	National Investment Bank
BOP	Bank of Punjab
NBP	National Bank of Pakistan
SCB	Standard Chartered Bank
BOD	Board of Directors
SB	Sindh Bank
FWB	First Woman Bank
SBP	State Bank of Pakistan
HMB	Habib Metro Bank
FDI	Foreign Direct Investment