

Impact of ownership structure and board independence on corporate performance: Empirical evidence from Pakistani listed firms

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Abstract: *This study investigates the relationship between ownership structure, board independence and firm performance of eighty listed Pakistani firms for the period 2005-2009. Performance is appraise with the help of market based and accounting based performance measures. Market based measures of performance, namely, Marris ratio and Tobin's Q, as well as accounting based measures, namely, ROA and ROE are employed to measure firm performance. Our regression estimates reveal a significant positive effect of board size on both market based and accounting based performance measures and significant negative effect of insider ownership on ROA, meanwhile board independence has significant positive impact on market based performance measures.*

Keywords: *Firm Performance, Tobins' Q, ROA, ROE*

I. Introduction

Businesses can have various objectives, however earning profit is considered as most essential goal. Earning profit is also termed as profit maximization. Financial institutions and private investors invest in business with the intention to earn profit therefore knowing the financial growth and stability of business are their most important concerns. In this regard, the separation of ownership and control generate the agency problem. Under this problem, investors and management are regarded as principal and agents, respectively. Following this theory, principals have wealth maximization objective and manager have their own interests which may contradict with the interests of shareholders. To overcome these issues, there is strong need to have effective corporate governance.

Corporate Governance gives framework to control and direct the particular organization. Its objective is to give directions and look over activities done by the directors of the organization which is owned by stockholders. This system manages to improve accountability and corporate performance by allocating the rights and responsibilities in a righteous way like sharing responsibilities among board of directors, managers and stakeholders.

The board of directors is responsible to align duties and interests of managers and shareholders. They also held to remove any discordance between them. It eliminates signs of conflicting interests between managers and share holders which lead to lessen the agency cost. A board consists of two directors: inside and outside directors. Some has believed that inside directors are more vital and effective because they have more information about inner organization values so they are more eligible to take right decisions which are more in favor for organization, whereas some contradictory views depict that inclusion of outer directors is very important due to their extended knowledge, controlling role and expertise. Another very important element of corporate governance is ownership structure. It mainly divides into institutional ownership, bank equity ownership, insider ownership, foreign ownership, block holder ownership, concentration ownership and family ownership. There are some proponents who viewed managerial ownership as board independence. Meckling and Jensen (1976) and Demstz (1983) mentioned that there will be more convergence in interests when insider ownership rises. On the other hand, Stulz (1988) argues that increase in insider ownership gives self serving behavior and result in managerial entrenchment and ultimately affect the firm performance.

1.1 Significance of the Study

Decisions of managers greatly influence the organization. These decisions made two fold effects on the values of organization. If their decisions goes in favor of stakeholders it helps to maximize the value but if their decisions are made for their own interests it might end up with poor organization performance. Researchers bring distinct opinions regarding managerial stake. Those managers with more stock in organization may tend to take decisions which go for their self interest to maximize their wealth, job tenure or to elevate their reputation and value. These type of decisions creates a conflicting situation. To overcome such pitfalls a good corporate governance is needed to keep check and balance that all activities are managed and decisions are effectively taken by managers to enhance the value of stakeholders not for

themselves. Board of directors which are very significant to look up above mentioned issues are hired to ensure that decisions are in best favor of shareholders and supervise the decisions of management. This duty of Board of directors (BOD) enhances the value of firm. Managers are under the act of performing such activities that needs to fulfill their own goals with the investment of shareholders. It may bring the inefficient utilization of free cash flows.

In such situations, corporate governance is required to look over organization. It is widely believed that good corporate governance is needed to have good corporate performance. The purpose of this study is to empirically test the impact of ownership structure and board independence on the firms' performance particularly with the case study of Pakistan. This paper will provide a useful insight about board size, board independence and ownership structure. It will also examine their affect on the performance of firm. This study broadly focusing managerial shareholders who have direct involvement in the decision making process of organization to testify the entrenchment hypothesis.

1.2 Statement of the Problem

From 1991 onwards, Pakistan has started the process of reform and structural changes. The transformation in financial regulations brings the effects on capital structure, compliance and risk premia to corporate governance. The target of establishing good corporate governance was assigned to Securities and Exchange Commission of Pakistan (SECP) in 200, in which demands BOD as a main monitoring and controlling device aligned with best governance practices to achieve the goal of stakeholders' interests protection. This was the first time ever in Pakistan provided with such rules for corporate sector. This initiative was taken with the expectation in rise of corporate performance. This is the new area and in its initial phase so more evaluation studies are needed time to time to accurately examine its impact. There are several studies already done in this area by undertaking different variables and with various data analysis models and techniques. However, there is still need of more detailed analysis in this are with increased sample size and with more advanced analytical skills. It will help to investigate that how much a proportion of outside board of directors have in influence on board, board size and insider ownership to enhance the performance of organization. This study central point is to explore the performances of market and account and will make a prominent contribution to literature.

1.3 Objective of the study

I have three objectives to initiate this study:

1. To have detailed analysis of board independence, board size and insider ownership and its impact on firms' performance.
2. To recognize the average percentage of managerial ownership, independent directors of organization and their relationship affect on the performance of firm.

II. Literature Review:

Corporate governance is actually a given framework which helps to maximize the wealth of shareholder along with increasing business wealth and corporate responsibility by directing, controlling and administrating business activities. (Keasey, Thompson, & Wright., 1997).

(2005, p.702) Parum defined corporate governance as 'A set of principles that guides the governing of companies and how these principles are communicated externally'.

It's a structure of legislative and regulatory framework. Annual General Meeting is called who is responsible for all managing activities and they set the objectives of governing activities. Board of Directors (BOD) is also one of them. (Bahaa El Din and Shawky, 2005).

The board of directors monitors and control business activities and strives to cater the best interest of shareholders (Fama and Jensen, 1983). They are authorized by law for sanction, evaluation and monitoring of managerial commencement and the business performance.

2.1 Board Independence:

The composition of board is the most important element. Structure of board composition can be differ and depends upon the choices of particular organization. But most of the corporate boards do consist of some top level managers of the firm along with the outside and inside directors. The inside directors are more informed about the internal activates of the firm, so they can inform more valuable information about the organization whereas, outside directors help out with their knowledge expertise. Outside directors evaluate the decisions of managers and reduce the agency cost and safe the interests of stakeholders (Farinha, 2003). Practicality of board (Gosh, 2006) and organization performance (Adams & Mehran, 2003) enhances with the presence of outside directors.

The presence of outside directors on board is known as board independence. It is one of the essential components to determine the effectiveness of board. People outside of the firm which should not be current or past employee of the firm can be independent director which can represent the interest of shareholders (Weisbach & Hermalin, 1988). They don't have any attachment with the organization so that they can purely indicate the interests of shareholder (Dobrzynski, 1991).

Outside directors check over that managers don't utilize perks. They actually join the firm when it is going through the period of decline and they assist and guide them with their strategies (Weisbach & Hermalin, 1988). Outside directors guides a firm to run in a momentous, constructive and share price reactions (Wyatt & Rosentein, 1990).

There is mixed research evidence exists about the non executive director proportion on firm and board performance. (Jensen and Fama, 1983; Ishiiin Metrick and Gompers, 2003; Chadha and Agarwal, 2005; Biekpe and Abor, 2007) approve that there is a positive relationship between performance of the firm and non executive directors. Whereas (Bhagat and Black (2002); Fosberg (1989); Hermalin and Weisbach (1991); Masry, Abdelsalam and Elsegini 2008, have seen no significant association between the performance of firm and percentage of independent directors. They take ROE as performance indicator (Elsegini, Abdelsalam and Masry, 2008) while Weisbach (1991), Bhagat and Hermalin considers Tobin's Q and ROA as performance indicators.

2.2 Board Size:

Different views prevail in literature about the size of board. Lorch and Lipton (1992); Hermalin and Weisbach (2003); and Jensen (1993) says that board size should be in between seven and eight because the increased size of board is less effective and difficult to get control over by CEO. Large board can accompanied by the free riding issues argues by Hermalin and Weibach (2003) and also deteriorates activities of coordination (Jensen, 1993). The larger board also requires more time span to take a right decision as more opinions involved and board cohesiveness reduced (Lorch and Lipton, 1992). However some proponents favor the large size of board. They argues that larger the board, larger the chances of diversification, knowledge, skills and a complete blend of expertise. They have more chance of getting full expert opinions (Dalton& Dalton, 2005).

2.2.1 Board size and Firm Performance:

These arguments are empirically tested and gave different results. Yermack (1996) conducted a study on the relationship of board performance and board size. He took his sample from USA, selected 452 industrial corporations under the time period of 1984-1991. Then, he applied various models, random and fixed effects and OLS estimates to investigate the relation of performance and size of the board. He used performance measures which are ROA, ROS, sales to asset ratios and Tobin's Q and find out a negative association between these variables. Lipton and Lorch (1992) and Jensen (1993) also find the same result as Yermack (1996). They are further supported by Sundgren, Eisenberg and Wells (1998) and Rosenstein (1998).

In contrast, studies of Abdelsalam, Masry and Elsegini (2008) and Bhagat, Black (2002) show contrary results. Their finding predicts that firm performance is not affected by the size of the board. Bennedsen, Nielsen and Kongsted (2004) results are consistent with Bhagat and Black (2002) that board size should be equal to size or below. Whereas, if the board of directors are more than six it creates a negative impact. Biekpe and Abor (2007); Yokishawa, Phan and Bonn (2004) also support these results. They conducted a comparative study on Australian and Jap[anise firm and used the 'Book to market value ration' to evaluate the results. This study also found negative association for Japanese firms where as no relationship fund between size and board performance in Australia.

Some studies also show a positive relation between these two variables. In Singapore, Mak and Li (2001) conducted a study by having s sample of 147 firms and found a positive relationship. Adams and Mehran (2003) also found the same results while measuring the performance by Tobins' Q in USA financial sector. Dalton and Dalton (2005) did a meta analysis on 131 studies and find the same positive relation between large boards and firm performance.

2.3 Managerial Ownership:

The relationship between the ownership structure and firm performance obtain a considerable significance in the world of research. There was a need originated to explore this are when ownership and control separated (Berle ad Means, 1932). This separation brings a conflict of interests which adversely affect the firms' performance. According to Meckling and Jensen (1976) by increasing manger's stake in the organization this conflict can be diminished. This will create the convergence of interests between stakeholders and managers which consequently increase the value of firm. Whereas, Stulz (1988) argued that increased managerial ownership brings entrenchment effect in which managers more capable to take decisions for their own best interest. Due to this self serving behavior, relationship of firm value and managerial ownership could have negative association.

2.3.1 Managerial Ownership and Firm Performance:

Previous researches show the mixed results. The studies of Morck, Vishny and Shleifer (1988) applied piece wise regression in their study and find out the presence of these effects. Their results show that managers with that stake of 0 to 5% make decisions with the interest of both. But when it exceeds the limit from 5% to 25 %, their interests goes in more favor for their own self which gives rise to entrenchment. Servaes and McConnell (1990) studies show curvilinear relation between these variables. He took the decade of 1976-1986 and focused all dimensions of ownership structure which includes individuals, insider, block holders and institutional ownership investors by using the performance indicators of Tobin's Q. Hermalin & Weisbach (1991) also did the same study by taking 134 firms as their sample, used Tobin's Q and ROA as performance measures and found the same result. These results were obtained without controlling leverage, firm size and dividend that might bring different effects.

Faccio and Lasfer (1999) also showed the same results in their studies. Holderness et al. (1999) and Morck et al. (1989) worked in the same dimension but found the contradicting results. Holderness didn't find entrenchment effect in rising managerial shareholding above 5% and its negative relationship with the performance of firm while Morck et al found different. Some researchers like Nishat and Mir (2004); Zilj, Farooq, Karim and Dunstan (2007); Shah, Butt and Saeed (2011) found negative relationship between them as they took ownership structure as endogenous variable.

Some other studies also show that there is no effect on firm performance due to managerial ownership which includes researchers (Cho, 1998; Himmelberg, Palia and Hubbard, 1999; Villalonga & Demsetz, 2001; Seifert et. Al., 2005; Brick, Wang and Palia, 2005). Himmelberg added some new variables like fixed affect model and panel data but found the same result. His result showed the negative relationship between insider ownership and capital to sales ratio. Whereas, positive association shown for managerial ownership, advertising to sales ration and operating profit margin. He used the control variables which filled the gap of previous researches and proved that diversifying structure of ownership do not significantly impact on the performance of firm. Cho (1998) took ownership structure as dependent variable and used cross section data which showed the same results. Demsetz & Villalonga (2001) used two-stage least square, applied ownership structure as endogenous and found the insignificant relationship between managerial ownership and firm performance.

On the other hand, Kasere & Moldenhauer (2005) did their study on German firm by taking sample size of 245 firms and found a positive relationship. Biekpe & Abor (2007) also got the same results. Welch (2003) investigated the Australian firm and took ownership structure both as exogenous and endogenous variables. His result showed the positive association with the ownership as exogenous variable. Endogenous ownership structure has no relationship with firm's performance.

The most of the above mentioned literature shows that positive association exists between board independence, board size and firm performance, however a less number of studies shown contrary results. Few favor the larger size of boards and insider directors. In case of ownership structure, researches also have different findings. Some researchers showed significant association but some showed positive relationship, some showed no association and some showed curvilinear relationship between managerial ownership and firm's performance. These studies were conducted in different sort of environment, by using different models and keeping variables in various forms which became the reason of different results indication. My study investigates the same relationship existence in the Pakistani setting.

III. Methodology:

3.1 Data

80 non financial companies which are listed in Karachi Sock Exchange(KSE) duration are selected for the purpose of study. The selected firms belongs to various types of industrial sectors which includes tobacco, engineering, oil , gas, chemicals, sugar and others. For sample 100 companies are selected but some data is missing for some years 20 variables are missing from the selecting sample. The study is focused on nonfinancial companies and overlooked the financial sector because they are regulated by SBP nd SECP and have different capital structure. The data is taken from KSE, SBP and annual reports.

3.2 Variables

In this study, the main variable is developing performance. the performance of the company is divided into two categories. The performance in market and the performance in accounting measure. Market performance is calculated according to Tobin's Q and Marris ratio on the other hand the performance of accounting is checked according to ROA and ROE.

3.2.1 Tobin's Q

Studies conducted from 1999 to 2003 by Himmelberg et.al., 1999; Faccio and Lasfer, 1999; Demsetz and Villalonga, 2001; Claessens., Djankov., and Lang, 2002; Cronqvist and Nilsson, 2003 revealed importance

of Tobin's q as an performance indicator in several studies related to corporate governance as performance evaluation measure. Tobin's q is defined as "ratio of market value of firm asset to replacement cost of these assets" (Tobin, 1969). To make useful & reliable result of Tobin's q it is necessary to get accurate value of nominator and denominator of Tobin's q. Remarkable growth opportunities of firm are represented by high value of Tobin's Q (Cronqvist and Nilsson, 2003). This study has followed the same formula for calculations as applied by previous researchers.

Tobin's Q = (Market value of equity + book value of debt) / book value of assets. Its value greater than 1 is indication of growth. Below 1 shows growth opportunities are not there.

3.2.2 Marris Ratio

It is also known as market to book value (MBV) & it is considered as long term performance measure. Current value of past investments of shareholders is measured by Marris ratio. Companies committed to deliver high value to shareholders & having high potential of making profit are represented by high Marris ratio. Because of its simplicity and accuracy it is used to measure shareholder investment (Fama and French, 1992). To measure performance evaluation this study has also used this measure.

Calculation of Marris ratio is done as under;

Marris Ratio = Market value of equity / book value of equity

3.2.3 Return on Equity and Return on Asset

ROE is an accounting performance which can explain that how much a company get on the sponsor of shareholders. It has no concerns with the amount which earned by borrowed funds. It does not accounts the levered funds. This issue is resolved by using ROA ratio. Its turnover earned on each element of asset utilized. These ratios are already used by previous researcher to measur performance (Adams and Mehran, 2003 ; Masry, Abdelsalaam, and Eldegini, 2008). They evaluatde them as:

ROA = Net income / Total assets – book value

ROE = Net income / Total share holder equity - book value

IND percentage of independent directors, BS board size , IOWN insider ownership are taken as the exogenous variables. Percentage of Independent director is measured as proportion of total directors on board whereas board size is measured by calculating log of total directors on board (Masry, Abdelsalaam and Elsegini, 2008). Insider ownership is calculated as insider ownership = directors, CEO or their spouse and minor children having total number of shares / total outstanding number of shares. (Shleifer, Morck and Vishny; 1988)

3.2.4 Control variables

The volume and leverage studied as control variables in this research, this was also studied as control variables by the other researchers (Morck et al., 1988; McConnell and Servaes, 1990; and Cho, 1998). The Volume/Size is calculated by acquiring the natural log of entire assets. Both positive and negative relationship of size with performance has remained the part of topic of study. According to Claessens et al (2002) size has positive influence on companies performance that is enlarge their dealing liquidity and having large network of chances. Morck et al (2002) argue that companies with vast assets base might having the minor development chances. The ratio of total value of a book of whole balance to book of the value of total assets is known as Leverage. Stiglitz (1985) discussed that leverage is positively correlated with performance of a company. This brought the motivation in management to make efficient utilization of resources to fulfil the requirement of debit refund and interest. These strict requirements for the management of inefficient utilization which free cash flows by reducing the amount on hand as free cash flow through its utilization in debit refund (Jensen, 1986). On the other hand, to highlight that refund lays pressure on administrator and make the reason for them not to invest in moneymaking plan.

3.3 Model

In this study, the data used is cross-sectional time series data, which have the both characteristics time series and cross sectional. This type of cross sectional time series data is used to encounter different variances and to get more reliable estimates. In this study, 80 firms for the duration of 5 years periods to obtain 400 observation of each variable is used for a panel regression model. the different equations of simple cross sectional or time series equation by adding the subscripts (i,t) with each variable. The regression model is:

Tobin's Q_{it} = $\alpha_i + \beta_1$ (BDI)_{it} + β_2 (BS)_{it} + β_3 (IOWN)_{it} + β_4 (Size)_{it} + β_5 (Lev)_{it} + μ_{it}

Marris_{it} = $\alpha_i + \beta_1$ (BDI)_{it} + β_2 (BS)_{it} + β_3 (IOWN)_{it} + β_4 (Size)_{it} + β_5 (Lev)_{it} + μ_{it}

ROE_{it} = $\alpha_i + \beta_1$ (BDI)_{it} + β_2 (BS)_{it} + β_3 (IOWN)_{it} + β_4 (Size)_{it} + β_5 (Lev)_{it} + μ_{it}

ROA_{it} = $\alpha_i + \beta_1$ (BDI)_{it} + β_2 (BS)_{it} + β_3 (IOWN)_{it} + β_4 (Size)_{it} + β_5 (Lev)_{it} + μ_{it}

Where BDI is proportion of independent director on board, BS is board size, IOWN is proportion of insider ownership, lev is leverage and μ_{it} is error term.

3.4 Hypothesis

On the basis of this research the following hypothesis are developed;

H1: the firm performance is affected by ownership structure

H2: the firm performance performance is affected by the size of the board

H3: the firm performance is affected by the proportion of independent directors of board

3.5 Data Analysis Technique

To check the importance of these relationships the common effect model has applied. Time series and Cross sectional data has changed into pooled data by joining their characteristics. Fixed effect, Random effect and Common effect models have applied on data. for the checking of best model the HUSMAN's test is applied. Its conclusion after the entire process on the basis χ^2 of that Common Effects Model is best for this study.

IV. Data Analysis and Discussion

For data analysis technique OLS regression is applied on pooled data, this helped out to calculate the relationship among the Firm performance, Ownership structure and Board Independence. Ownership structure, board size and Percentage of independent directors are reverted with all performances factors; Return On Equity, Return On Assets, Marris Ratio and Tobin's Q.

Table 4.1 shows descriptive statistics of each and every variable included in this discussion as dependent, Independent and control. In this table, the minimum and maximum values of all variables, S.D and average mean is included. Its analyzed from the findings that the average of shares which are possessed by insiders is 14% that is consistent with average mean values reported by previous studies (Hermalin and Weisbach, 1991; Cho, 1998; and Lasfer and Faccio, 1999; McConnell and Servaes, 1990; Morck, Schleifer, and Vishney (1988). The pervious finding also shows that the equal study which lies between 5% to 25% . This specify managerial ownership increase towards establishment effect. Managers decisions in self interest results in high agency cost hence low firm performance (Stulz, 1988). 2.12 is average board size from whom the independent directors are 56 percent. For effective monitoring and to resolve the agency problem the independent directors are needed at board, this is the evidence of the fact this is high percentage of outside directors. It depend upon the managers self advantage decisions, unnecessary use of perks and the funds of shareholders. The average means of Board size is 2.13 that is equal to 7. The board size can be measured by taking the natural log of overall number of director in board. the argument shows that the average board size is 7. This is related with preceding studies (Lorch and Lipton, 1992; Jensen, 1993 and Weisbach and Hermalin, 2003) they defined that the size of the board must be limited to 7 or 8. The measurement of ROA and ROE of company performance are having the average of 13 percent and 16 percent, this is not as good performance on average. However, Tobin's Q average value is 1.6 that is greater than 1, which shows of growth opportunities. This Tobin's Q average is equivalent to preceding researches; as 1.61 and 1.2 which illustrated by Faccio and Lasfer (1999) and Demsetz and Villalonga (2001) correspondingly. To measure the size variable the natural log of total assets is taking and the average of 8.68. leverage is used as control variable has the mean of 2.1.

the regression results of all variables included in the study is shown in table 4.2 and 4.3. ROE, ROA, Marries ration and Tobin's Q all performance indicators are individually regressed with set of independent and control variables (Insider ownership, independent directors and board size, size and leverage).

A important negative relationship is come across between the percentage of shares held by directors, CEO, their spouses and children and ROA. However, this correlation is statistically momentous only with ROA at the 1 % level of significance. This negative relationship is facts of entrenchment hypothesis. These outcomes are constant with Butt, Shah and Saeed (2011); Zilj, Farooque, Karim and Dunstan (2007); Mir and Nishat (2004). However, the different indicators of performances show the ownership structure does not affect the performance of firms these results are equivalent as (Palia, Brick and Wang, 2005; Villalonga and Demsetz, 2001; Himmelberg et al., 1999; Seifert et. al., 2005; and Cho, 1998).

Independent director on board is absolutely related with Tobin's Q and Maria's ratio that is statistically very important at the 1 % level of significance. These are the same results with Ishii, Gompers & Metrick, 2003; Jensen & Fama, 1983; Biekpe & Abor, 2007; Chadha & Agrawal, 2005). This shows that the higher percentage of independent directors on board is better for company performance. Company Performance raises by the adding of outside directors. Its fact that outside directors are doing their monitoring jobs efficiently, this declining the agency cost and protecting the shareholders interest (Farinha, 2003). However, no correlation is found with accounting measures. The results are line with (Weisbach and Hermalin, 1991; Fosberg, 1989; Masry, Abdelsalam and Elsegini, 2008; Black and Bhagat, 2002). The performance indicators (ROA, ROE, Tobin's Q and Marris Ratio) and size of the board are positively associated and this association is significant at 1% level of significance. These results are equivalent with Rosenstein and Barnhart (1998); Weisbach and Hermalin (2003) and Lorch and Lipton (1992); Sundgren, Eisenberg and Wells (1998); Yermack (1996) and Jensen (1993).

Size is significantly positively associated with ROE at the level of 1 percent of significance. The positive correlation between ROE and size is good sign. This showing that the firm increases its total assets and ROE. The firm is utilizing assets successfully and is having potential to generate value for its shareholders. The results are equal to Claessens et al., (2002). Leverage shows the negative relationship with all other performance measures but Marris ratio. The results are reliable with Palia, Brick and Wang (2005) and Mir and Nishat (2004). it is analyzed From the results that leverage does not play any part in stimulate the managers towards the valuable utilization of reserve. Debit does not create any value for business because of repayment cost and high interest. Manager's self interest can be the reason of ineffective utilization of these free cashflows. The corporation debit cost also effected on the return of shareholders. financial risk of shareholders increase if the company get more debit because it require return of shareholders as aruged by Miller and Modigillani in Proposition II. Marris ratio also justifies by positive relationship of leverage. This shows that shareholder required more retun because of the risk related with debit.in this discussion clash of interest occurs between shareholders and managers, agency cost raise and outcome the overall value of firm negatively. An another reason of this negative relation is that managers does not invests in beneficial projects due to enormous debit repayments plus interest cost related with it. F- value shown the fitness of model. it is less than 0.11 all models,this shows that model are fit at 1% level for all performance indicators. R2 value in all models is not up to mark except for the model with ROE. the explanatory power of models with ROA, Marris ratio and Tobin's Q is very low. These Result show 18.19% variation has been explained in ROA, 11.5% in Tobin's Q, 21.24% in Marris ratio and 87% in ROE because of variables. Explanatory power of the model with ROE has raises by the inclusion of Control variables.

V. Conclusion

This study develops a theoretical model to better identify with how the priorities of the board on directors are effects by the ownership structure and how that affects firm performance of 80 listed firm in KSE. Performance is calculated according to ROE, ROA, Marris ratio and Tobin's Q. Independent variable is measured by taking the proportion of board size and independent on board, while to measure the ownership structure managerial ownership is focused. To check the importance of these relations the Common effect model has applied. From all the results it is analyze that negative relationship of managerial ownership with performance is best defined by ROA. Negative relationship between accounting performance and managerial ownership estimated is a symbol of clash of interest between shareholders, managers and give the facts of entrenchment result.Notwithstanding, reserch hypothesis rejected beacuse all the other performance indicators have found no significant relation. And proved that ownership structure have no affect on firm's performance. The Percentage of independent directors on board is positively and sufficiently associated with market based performance measures. However, no important relationship is found between accounting based measures and proportion of independent directors on board. The results are similar to previous researchers and support the hypothesis that there is positive association between firm performance and board independence. Board size is positively related with accounting and market based performance which can be measured and supports the hypothesis strongly.

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Table 4.1: Descriptive Statistic

	N	Mean	Std.Dev	Min	Max
ROA	300	0.020407	0.006771	-0.08067	0.737113
ROE	300	0.068638	0.06504	-22.1132	9.27486
Tobin's Q	300	0.49886	0.14849	0.229984	7.61838
Marris's Q	300	1.341672	2.44242	-2.04038	22.66071
IOWN	300	0.022755	0.006911	0.001	0.0712
IND	300	0.430039	0.00276	0.000	0.001
Board-size	300	1.00136	0.00065	0.05204	1.01123
Size	300	7.11731	0.111004	4.32321	10.1554
Lev	300	3.079198	10.06181	-59.7071	169.1154

Table 4.2: Regression Results of Common Effect Model

	ROA			ROE		
	Coefficient	t-value	P-value	Coefficient	t-value	P-value
Intercept	-0.121416	-3.05**	0.000	-0.71699	-1.13**	0.031
IOWN	-0.12504	-3.0**	0.002	-0.19611	-1.41	0.101
IND	0.032812	1.03	0.289	-0.19781	-1.81	0.11
Board-size	0.141015	6.14**	0.000	0.301632	2.31**	0.011
Size	0.014061	1.17	0.23	0.08241	3.05**	0.003
Lev	-0.0014075	-1.15	0.259	-0.12977	-49.35**	0.000
R²	0.1719			0.7894		
F-value	0.0000**			0.000**		

**significant at 1%, * significant at 5%

Table 4.3:Regression Results of Common Effect Model

	Coeff	t-value	P-value	Coeff	t-value	p-value
intercept	-1.5462	-2.29**	0.018	-5.17013	-2.59**	0.006
IOWN	-0.3172	-1.48	0.0176	-0.2218	-0.29	0.762
IND	0.81027	3.31**	0.003	1.26376	2.09**	0.023
Board-size	1.50112	4.47**	0.000	2.30152	3.15**	0.01
Size	-0.01854	-0.01	0.958	0.31354	1.49	0.121
Lev	-0.01341	-0.23	0.821	0.192934	8.09**	0.000
R²	0.119			0.2201		
F-value	0.000**			0.0000		

**significant at 1%, * significant at 5%