

Firm Performance and Evolving Corporate Governance: An Empirical Study from Pakistan

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Abstract : This study empirically examines the corporate governance and firm performance, and tries to evaluate the governance, ownership and control related variables which are hypothesized to affect on firms performance. This study tries to evaluate the effectiveness of corporate governance mechanism to achieve high level performance among companies listed on the Karachi Stock Exchange (KSE) over the period from 2005 to 2008. To measure the firm performance level this research uses three measures of performance; Return on assets (ROA), Return on Equity (ROE) and Tobin's Q. To link the performance of firms with the corporate governance three categories of corporate governance variables are tested which includes governance, ownership and control related variables. Fixed effect regression model is used to test the link between corporate governance and firm performance for 267 KSE listed Pakistani firms. The result shows that corporate governance variables such as percentage block holding by individuals have positive impact on firm performance. When CEO is also the chairperson of board then it is found that firm performance is adversely affected. Also negative relationship is found between share held by insiders and performance of firm. Leverage has negative impact on the performance of the firm and firm size is positively related with the firms performance.

Keywords : corporate governance, performance, agency cost, Karachi stock market

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