Analyzing the Impact of Corporate Governance on Financial Performance of Firms in Emerging Markets of South Asia

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Abstract

This paper analyzes the impact of Corporate Governance Index and individual corporate governance dimension such as Board Activity, Board Size, Board Independence, Gender Diversity on Board and CEO Duality on financial performance of firms in emerging markets of South Asian Markets, specifically, Pakistan, India and Bangladesh. The data is collected for 100 listed firms of each country's stock exchange based on market capitalization for the period 2009 to 2017. Balanced Panel data methodology is used for estimation purpose. The results show that there is a significant positive impact of corporate governance index on the financial performance of firms in all markets including Pakistan, India, Bangladesh and overall South Asia which implies that the performance of firms in these countries can be further improved by better corporate governance practices. The study also finds that increased Board Activities, larger board size and gender diversity leads to better financial performance in South Asian market. Board Independence negatively affects the financial performance of firms in India and for the South Asian Market. Regarding dual role of CEO, the study finds that it leads to better financial performance in case of Pakistan and also for the Indian market however, this duality leads to negatively affecting the performance of firms in case of Bangladesh. Based on the above findings it is suggested that the financial performance in these three markets can be improved by increasing the Board activities, larger board size, Chief Executive Duality and by improving the Gender diversity in the South Asian markets.

Keywords: Corporate governance, Board activity, Board size, Board independence, Gender Diversity on board and CEO Duality, Financial performance.

Introduction

Foreign direct investment and domestic investment plays a vital role for the growth of an economy. Fraudulent events occurring within an organization not only taints the image of the organization but also make the country questionable for both local and foreign investors (Bhasin, 2013). Such dismal behaviors result in lower the number of domestic and foreign investors and this blight is enough to impede the economic growth of any country. Famous corporate scandals and frauds such as Enron, WorldCom, Satyam, etc. highlight the importance of determined and durable corporate governance. Organization investments decisions are mostly backed by precise and error free financial information.

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However, some companies indulge themselves in some illicit activities like manipulation or window dressing to show a brighter side of their firm and to conceal the actual financial statistics. A monitory body is needed to keep an eagle eye on such fictitious activities. The presence of reliable independent auditors goes a long way to assure investor trust (Corplaw Blog, 2014; Leung et al., 2014). Similarly, an audit committee plays a significant part to guarantee the reliability of internal control structure (Nuryanah & Islam, 2011). This audit committee probes the financial statements of a firm and act as an intercessor among board of directors, managers, external and internal auditors. Moreover, it ensures the transparency, capacity and proper flow of information (Bhardwaj & Rao, 2015).

So eventually it is needed that companies should have a strong governance system which ensures the reliability and transparency in the accounting records as well as in the accountability of the individuals in the corporation.

(CG) is basically a system which refers that how an organization is administered, directed and controlled. It affects the manager's decision through some set of rules and regulations and also decides that how the existing and potential stakeholder perceives the authenticity of a firm. It designs rules and procedure which provides aid to decision making processes and identify the apportionment of rights and responsibilities among different stakeholders of a firm such as boards, managers, investors and other stakeholders. The foremost job of CG is to examine the ways by which stakeholder involves in accomplishment and they make efforts to guarantee that the procedure adapted by manager and other internal masses is in the best interest of all the connected stakeholders. Globalization on one hand has increased the dependence of economies on one another but also has changed the reliance of economies from government to private sectors. As result, this makes the economic picture much more perplexed and lopsided the growth of economic engine of all the countries on the globe towards private sector. Companies are the most organized form of man-made bodies which strives for the welfare of mankind and their survival is the assurance of prosperity of wellbeing. Companies contribute a lot in the economic cadre and for the social development of any society. Ultimately, it reduces the poverty, increases the purchasing power and gives masses a direction towards improved and lavished living standards. Some financial and non-financial instruments are used to gauge the performance of any company, these economic indicators reveals to which extent this company has achieves its objectives and desired results (Kaplan and Norton, 1992; Lebans and Euske, 2006). Most widely used tool for making decisions of investments is financial ratios; they are also used to analyze the profitability, market value and tell how efficiently company has utilized its assets.

Cordial Corporate Governance practices bring several fruitful results such as increased volume of investment capital, mitigate risk for stakeholders and broaden the list of achievements of companies. There is a logical connection among the performance and the financial reservoir of a firm. It actually decides the financial resource by which company will achieve its strategic and corporate objectives. Performance is the essence which keeps businesses and anticipates how company will grab its future opportunities. In other words performance is the critical line which decides the faith of any company. In the past two decades, there has been an increased intensity of research on the relationship between corporate governance and firm performance. But the issue has mainly been explored in developed economies (Hermalin and Weisbach, 1991; Kang and Shivdasani, 1995; Gompers *et al.*, 2003; Judge *et al.*, 2003; Barnhart *et al.*, 1994; Bauer *et al.*, 2004; Christopher, 2004; Bhagat and Bolton, 2002; Guest, 2008). One cannot emulate the work of west to study Asian economies thus The empirical work on this issue is still at its infancy in the context of developing countries like India, Bangladesh maybe due to the relatively opaque disclosure practices followed by companies or the data unavailability problem. Moreover, most of the previous studies on India were either based on small samples (Dwivedi and Jain, 2005; Ghosh, 2006; Garg, 2007; Jackling and Johl, 2009) with a limited number of observations or on cross-sectional data that do not allow controlling for unobserved firm effects. Allegedly a lot of evident work and researches are there which examine the relationship between corporate governance and firm performance. But there is lack of availability of this work in Asian economies thus this study comes with a purpose to prudently investigate the relationship between Corporate Governance and Financial Performance for a large representative sample of manufacturing industry in non-financial firms of emerging economies of South Asia including Pakistan, India and Bangladesh . It is an addition to the literature related to the different aspects of corporate governance practices with regard to south Asian emerging economies.

According to IMF two countries included in sample are fastest growing countries of the world among the emerging economies. Bangladesh being the second largest growing economies with a rate of 7% .and India is the fifth in emerging economies in terms of nominal GDP.

These economies have room for diverse profiles of investors on one hand with minimal risk of overreaching on the other side (from developed economies). This margin for higher returns is evident from growth increase of 6.3% to 7.6% during fiscal years of 2013-16 as reported by World Bank (Will Kenton, 2019). Contrary to the emerging economies, developed economies (Christina, 2019) observed a growth of mere 1% to 2%, and those of other developing nations (like BRICs, except for India) remained flat or even turned negative Other relevant future research agendas could be to examine the impact of gender diversity on board which is unfairly ignored in the literature.

Nevertheless, it can be hoped that attempts such as this study will generate more debate on the issue and reason for further research in this area, especially in the context of developing countries.

Literature Review

According to (Boyd, 1995) board independence and firm performance have a positive relationship which also support agency theory. Whereas stewardship theory views the positive side of human behavior, emphasizing that agents are honest and reliable they prefer to secure the interest of their principal. They are striving for the wellbeing of corporation. (Barney,1990; Davis et al., 1997; Donaldson,1990a, 1990b; Donaldson & Davis, 1991; The theorist who are in favor of the phenomena that human beings are good natured stressed that board should have definitive power. If the board will be empowered they will only take decision in the betterment of the firm. (Donaldson & Davis,1991; Ong &Lee,2000). According to (Davis etal., 1997; Luan &Tang, 2007) this theory is in consensus that Board should be fully autonomous and free from the outsider independent directors.

Keeping in view both side of theorist the researcher is in the opinion that individuals are self-observed and unscrupulous than philanthropic or self-sacrificing. It is human nature which always required some sort of monitoring and that could be only made through inclusion of independent director. So theoretical foundation of this study will be Agency theory

The relationship between Corporate Governance and performance was also analyzed by the Zukaa et al. (2018) for the Syrian firms and they concluded that that there is a significantly positive impact of Corporate Governance on financial performances during epoch of political stability. In another study, Dalwai et al. (2015) provided a way forward for future studies that one can gauge the impact of Corporate Governance rules and procedures on firms' performances.The Corporate Governance mechanisms can be developed through further exploration in the banking sector. They recommended that further research could be worth doing if done for the sector of Gulf Cooperation Council. Ahmed et al. (2013) analyzed the relationship of managerial ownership, board size and outside directors with value, leverage and profitability ratios. They concluded that outside director and managerial ownership are inversely whereas board size is in direct relationship with book to market ratio, earning per share and return on asset.

In another study, Alix et al. (2011) analyzed that if a firm decreases the quantity of overall directors and directors from outside firm, this action tolls and put some adverse effects on the performance of firms. On the other side, Guo and Kga (2012) scrutinized some listed firms of SiriLanka to analyze that how Corporate Governance affects the performance of these firms. After analyzing them through applying some scientific research methods they concluded that board size and firm value are negatively related to one another. Moreover the result proves that firms' financial performance and board of non-executive directors are inversely proportional to one another. With reference to Board size and firm size, Yermack (1996), allegedly two decades ago he revealed the Benefits of financial ratios for companies with small boards. They found statistically significant and negative relationship between firm size and board performances. Similar to previous one, Eisenberg et al. (1998) also conducted a research in Finland and found a negative relationship exist between board size and Firm Performance. Fratini and Tettamanzi (2015) had used accounting and non-accounting performance measures to study the relationship of Corporate Governance with the performance. After prudently investigating the sample, he found that performance is positively associated with board size. Moreover, he concludes that positive impact on performances is seen if the company is shrouded by relevant audit and compensation management committee.

The recent past literature had witnessed a lot of researches on board size and performances. Large board size created more opportunities and discovered more resources which resulted in increased financial performance (Chugh, Meador & Kumar, 2011). Larger Board size also played a significant role in improving the corporate performances (Coleman, 2007). Similarly, Javid & Iqbal (2008) have also witnessed the same positive relationship between firm performance and board size. However two Chinese author Cheng Wu, Chiang Lin; I-Cheng &Feng Lai (2005) came up with slightly different conclusion and found a negative impact of board size on the performance of the firms but they assured that there is significantly positive relation between firm performances and composition of those specific board.

With reference to another important aspect of corporate governance is Chief Executive Officer's dual roles in the organization and many researchers have found a relationship of this aspect of corporate governance with the performance of firm. For example, Chaghadari (2011) found that a severe adverse impact is imposed by CEO duality on the performance of the firm measured through Return on Assets. Similarly, Chugh, Meador & Kumar (2011) examined and report a negative relationship between CEO duality and performance of firms. In another study, Coleman (2007) recommended to separate the positions of CEO and Chairman because they found an adverse impact of CEO duality on firm performance. Furthermore, Lam and Lee (2012) concluded that

CEO duality when associated with firm actually reduced its performance. Moreover, Cheng Wu, Chiang Lin, I-Cheng &Feng Lai (2005) concluded a significantly negative association between CEO duality and firm performance or objectivity.

The researches have also analyzed the role of gender diversity in performance of the firms. One of the recent study conducted by Michael et al (2017), discovered that gender diversity can predict the performance of the firm. They explored the effects of management and board gender diversity to identify how they influence the performance of Microfinance Institutions. They found that board gender diversity is indirectly and significantly affecting Microfinance Institutions financial performance whereas, management gender diversity negatively but insignificantly affects the performance. They concluded that both board and gender diversity are productive at the threshold of 50%.However, if female representation cross 50% threshold, it can toll the financial performance of the firm. Some studies proves that gender differences in leadership changes the Leadership style and female leaders were considered people oriented and more likely to be participative and democratic (Eagly et al., 2003).

Another important dimension of Corporate Governance is the Board activities which also affect the performance of the firm. The attendance of the board of directors in the board meetings is one of the criteria based on which a member of the board of directors is nominated again hence each board member / director is expected to attend all the meetings of the board (SEC 2006). It is the responsibility of board to hold meeting on regular basis to effectively monitor the performance of the management. Board meeting were required to analyze the progress of the company (Jensen 1993). The studies conducted by Conger et al. (1998) and Vefeas (1999) concluded that frequent board meetings played a positive role in the wellbeing of management and on the performance of organization. Conger et al. (1998) found that board activity is the way through which improvements can be monitored on consistent basis in performance of firm. One of the benefits of regular meetings of the board of directors is also that they can develop the strategy for the organization to move forward. According to Lipton and Lorsch (1992), The consistent meeting of the board also helps the directors to improve the inter action whereby they can create harmony and bond among themselves. However on the other side it is also felt that these board meetings are time consuming and also involve expense (Vafea, 1999). Jensen (1993) argues that the outside directors are for the very limited time meet together and most of the time is spent on their interactions with each other rather than some important discussion. Frequent board activities actually gave less time to work on important assignments (Lipton & Lorsch 1992). Vafeas (1999) narrate that there was negative association between board activity and performance and he concluded that when board met at normal interval, the operating performance of the company improved.

Board Independence also has a significant effect on the Performance of a firm and performance of a firm can be improved by having independent directors on the board because it provides them several benefits for instance: strict monitoring and minimized agency cost (Brickley et al. 1994; and Fama and Jensen, 1983). Similarly, Dharmadasa et al (2014), Lin (2011) and Pahuja (2011) also found that the presence of more independent board of directors in organizational structure increased the efficiency of the organization to a great extent. Additionally they facilitated firms in improving their stock prices (Denis and Sarin, 1997). If the company was not able to perform well, this independent board of directors has much to lose and it could devastate their reputation and lower their earnings. Due to these fragile stakes they put an immense effort to make the project successful and profitable (Eisenberg et al., 1998). However, Koerniadi & Tourani, (2012); Leung et al., (2014) and Shan & McIver, (2011), contrary to above findings concluded that independent board of directors didn't possess all needed information hence, there is no positive connection between firm performance and independent board of directors. Moreover, Balasubramanian et al., (2010); Lange and Sahu, (2008) and Sarkar et al., (2006) found that instead of independent board of directors, firms performance is more likely to be affected by quality of board members. L8

Number of studies have found a relationship between Board size and performance of firms. De Oliveira Gondrige et al. (2012); Fauzi and Locke (2012); Saibaba and Ansari (2012); and Ujunwa (2012) found a mixed approach in this perspective. There is one school of thought who firmly believes that larger board size comes with more knowledge which makes decisions more accurate and effective (Hambrick et al., 2008). Additionally, they believe that larger board size are more visionary, brings more proposal for investment and more likely to benefit the stakes of stakeholders. However, they believes that lower board size are inefficient and do not have potential to bring positive strategic changes. In contrast, some authors believe that larger board size comes up with shortcomings such as social loafing, wastage of time and lack of communication. They think these all mentioned factors could make decision ineffective. As the situation prevent them to use their skills knowledge and talent (Dharmadasa et al., 2014; Drakos, & Bekiris, 2010; Jensen, 1993 and Lin, 2011).

Another important variable of corporate governance whose importance is very seriously felt in Bangladeshi corporate sector where as India and Pakistan have to focus on this dimension according to Solakoglu and Demir (2016) borad gender diversity play a positive role and it is supported by number of reasons . First, while a board is heterogeneous it's miles assumed that it'll benefit a higher information of the marketplace area and, through extension, the market segmentation desires of the service or product which could translate into better overall performance of the firm. Second, board mixture can also promote better creativity and innovation in an effort to positively impact company overall performance. Third, a higher stage of diversity on the board might also result in a better company picture which might also ultimately cause a higher performance. Fourth, a diverse board (which includes women and men) may additionally enhance the choice process of the company so that you can cause a higher management team with a probably better performance. Fifth, at the face of it, a diverse board is expected to have a broader view of the enterprise surroundings that allows you to enhance the policy making process over the evaluation of many alternatives

All of the above literature has found significant impact of corporate governance practices on the financial performance of the firms however, there is little evidence found for the South Asian markets in general and for the Bangladesh, India and Pakistan. Furthermore, the referred literature in also lacking in terms of recent data set explaining this relationship. Moreover, Corporate Governance Index is not available for the South Asian Markets.

Research Methodology

The sample is selected from three emerging economies of South Asia including Pakistan, India and Bangladesh. The data is collected for non-financial firms listed on stock exchanges of respective countries including Pakistan Stock Exchange, Bombay Stock Exchange and Dhaka Stock Exchange. The firms are selected on the basis of market capitalization. The data is collected for only 100 firms due to the availability. The data for each firm is collected from their annual reports and from the website. The firms with missing data are excluded from the sample and we are left with the final sample. The time period of this study is from 2009 to 2017. The reason of not including the years prior to 2009 is that in 2008 there was a financial crisis. The Measurement of selected variables is given in the following table 3.

Table 3.1: Measurement of Variables.

Variables	Symbol	Measurement	References
Board Activity	BA	the attendance of the board members in BM,	Conger et al (1998). Vafeas (1999)
Board Size	BS	Number of directors represent the board	Ajanthan & Kumara (2017) Wellalage& Locke, (2012)
Board Independence	BI	Board independence is % of non-executive directors in total board size.	Gill &Obradovich (2015) Platt and Platt, (2012)
CEO Duality	CEOD	1 if same person occupied two posts and ―0 for otherwise	Ajanthan& Kumara(2017) Achchuthan&Kajananthan, (2013) Gill &Biger, (2013)
Gender Board Diversity	GD	the proportion of female members on the board	Lenard et al. (2014), Ahern and Dittmar (2012),
Corporate Governance Index	CGI	Will be made using principal component Analysis	Padmanabha and Rathish (2017) Javed & Saboor, (2015)
Sales Growth	SG	$\left(\frac{\text{Sales}_1 - \text{Sales}_0}{\text{Sales}_0}\right)$	Ajanthan&Kumara, (2017)
Leverage	LEV	$\left(\frac{\text{Total Debt}}{\text{Total Equity}}\right)$	Tsagem,Aripin(2014)Bezminabadi, (2013)
Financial Performance	FP	(Net Profit after taxes)/Total Assets	Rad et al., (2013) Bhatt & Bhatt, (2017)

Panel data methodology is used in the current study as the study aims to examine the impact of corporate governance on performance of firms' financial performance. The analysis is carried out at two levels. These levels include the investigation of individual corporate governance dimensions and then on the basis of collective corporate governance in the form of Corporate Governance Index. Hence, based on Literature review, the following two models are being estimated:

$$FP_{i,t} = \alpha_t + \beta_1 BA_{i,t} + \beta_2 BS_{i,t} + \beta_3 BI_{i,t} + \beta_4 CEOD_{i,t} + \beta_5 GD_{i,t} + \beta_6 SG_{i,t} + \beta_7 LEV_{i,t} + \varepsilon_{i,t} \quad (3.1)$$

According to equation 3.1, the dependent variable is a Financial Performance (FP), while Board Activity (BA), Board Size (BS), Board Independence (BI), CEO Duality (CEOD) and Gender Diversity (GD) are independent variables representing Corporate Governance (CG). Variables such as Sales Growth (SG) and Leverage (LEV) are controlled which are assumed to have an influence on the dependent variable.

Similarly the Second Model is estimated as follow:

$$FP_{i,t} = \alpha_t + \beta_1 CGI_{i,t} + \beta_2 SG_{i,t} + \beta_3 LEV_{i,t} + \varepsilon_{i,t} \qquad (3.2)$$

Equation 3.2 is same as equation 3.1 except the independent variable. In this equation rather than using individual variables, Corporate Governance Index (CGI) is used as a proxy for corporate governance. Following Padmanabha and Rathish (2017) ,and Javed & Saboor, (2015), CGI is formulated via weighted average of individual corporate governance dimensions. Equal weights are assigned to each above dimension and CGI score will be generated by taking averages scores of these dimensions.

Results and Discussion

The results and discussion section comprises of two parts where first, the descriptive analysis is presented followed by the impact analysis of corporate governance on the performance of firms in South Asian countries including Pakistan, India and Bangladesh.

Table 4.1: Descriptive Statistics of Variables

Variable	Descriptive	Pakistan	India	Bangladesh	South Asia
Financial Performance (FP)	Mean	0.3298	0.486	0.3377	0.3846
	Std. Dev.	0.3678	0.704	0.3276	0.5009
Board Activity (BA)	Mean	0.5115	0.515	0.63	0.552
	Std. Dev.	0.4208	0.538	0.3336	0.442
Board Independence (BI)	Mean	0.452	0.337	0.2737	0.3542
	Std. Dev.	0.2729	0.237	0.2358	0.2599
Board Size (BS)	Mean	5.1511	4.984	4.7928	4.9759
	Std. Dev.	2.2126	3.168	2.3284	2.6077
CEO Duality (CEOD)	Mean	0.3504	0.47	0.3826	0.4008
	Std. Dev.	0.4481	0.581	0.4764	0.5075
Gender Diversity (GD)	Mean	0.319	0.328	0.3639	0.337
	Std. Dev.	0.3896	0.354	0.3522	0.366
Corporate Governance Index (CGI)	Mean	0.81	1.219	1.1392	1.0559
	Std. Dev.	0.7307	0.959	0.6894	0.8208
Sales Growth (SG)	Mean	0.4297	0.295	0.362	0.3621
	Std. Dev.	0.4137	0.385	0.3475	0.387
Leverage (LEV)	Mean	0.6142	0.667	0.61	0.6302
	Std. Dev.	0.5028	0.62	0.4161	0.5203
No. of Firms		100	100	100	300
No. of Observation		900	900	900	2700

The above table 4.1 shows that descriptive statistics for all variables of the study for the individual South Asian countries including Pakistan, India and Bangladesh and also for the overall south

Asian countries. The first variable is the financial performance which indicates that Indian Firms are better in financial performance in comparison to other countries with relatively higher risk in terms of standard deviation. The results are depicting that mean value of Board Activities is highest for the Bangladeshi firms with a least value of standard deviation which indicates that most of the Bangladeshi firms perform more Board activities during a year in comparison to other countries. In Pakistan and India, Board activities are almost same. However in relation to Board Independence, Pakistani firms are more independent that India and Bangladesh where, Bangladeshi firms are least independent. Same results are for the Board size variable where the average Board size of Pakistani firms is higher than India and Bangladesh with least standard deviation as well. It indicates that Most of the Pakistani firms are bigger in Board size. The mean value of CEO duality indicates that Indian firms have more dual role of CEO where, he is the chairman of the board as well while Pakistani firms have lesser dual role of CEO in the firms. Regarding Gender Diversity, Bangladeshi firms have more gender diversity in the firms which means more women are in the board exists for the Bangladesh while lesser diversity exist for Pakistani and Indian firms.

In general, the CG Index value is higher for the Indian firms in comparison to Pakistan and Bangladesh with higher standard deviation as well. Sales growth which is the control variable of the study indicates that Pakistani firms are more growth oriented than Indian and Bangladeshi firms with least value of standard deviation. However with regards to leverage, Indian firms employ more debt in their capital structure than othercountries. The Table 4.2 is showing the impact of independent corporate governance dimensions on the financial performance of the South Asian Countries including Pakistan, India and Bangladesh. With reference to Board Activities, it is found that more board activities lead to better financial performance in Pakistan, India and for South Asian Countries however, it negatively affects the financial performance of firms for Bangladesh where lesser Board Activities lead to better financial performance. In all cases coefficients are significant at 1% level of significance except Bangladesh where, it is significant at 5%. The studies conducted by Conger et al. (1998) and Vefeas (1999) concluded that frequent board meetings played a positive role in the wellbeing of management and on the performance of organization. Conger et al. (1998) found that board activity is the way through which improvements can be monitored on consistent basis in performance of firm. One of the benefit of regular meetings of the board of directors is also that they can develop the strategy for the organization to move forward. According to Lipton and Lorsch (1992), The consistent meeting of the board also helps the directors to improve the interaction whereby they can create harmony and bond among themselves . The logic behind the support of independent director on board is that they will be neutral and play positive role in the success of the company which will be value addition (Park &Shin,2004) (Finkelstein & Hambrick,1996; Kesner et al., 1986; Zahraand PearceII,1989;). Board which are constituted fairly are supposed to make decision regarding CEO replacement, remuneration, hiring and firing of employees (Hermalin &Weisbach,2003). In this regard an important thing is that outside director should be expert of their field so that insider should not be dominated and did not influence them to take decision of their own interest (Dalton &Daily,1999).The Board Independence has significant negative relation with performance of the firms in India and for the overall South Asian Market which means more Independence of Board in these two cases lead to weak financial performance however in case of Pakistan and Bangladesh, it is insignificant. Koerniadi & Tourani, (2012); Leun g et al., (2014) and Shan & McIver, (2011) also concluded that independent board of directors didn't possess all needed information hence, there is no positive connection between firm performance and independent board of directors.

Accoding to (Finkelstein & Hambrick,1996) member of board who are within the Company are more informative and knowledgeable about the company`s problem and issues in contrast with outside directors, so whenever company have to take any material or immaterial decision they have to rely on director sitting within the company. Moreover, Bala subramanian et al., (2010); Lange and Sahu, (2008) and Sarkar et al., (2006) found that instead of independent board of directors, firm's performance is more likely to be affected by quality of board members

Table 4.2: Impact of Individual Corporate Governance Dimensions on Financial Performance of South Asian Markets

	PAKISTAN			INDIA		
Variable	**Coefficient**	**Std. Error**	**Prob.**	**Coefficient**	**Std. Error**	**Prob.**
C	0.0738	0.0595	0.2156	-0.3025	0.0444	0.0000
Board Activity (BA)	0.0994	0.0394	0.0119	0.1867	0.0588	0.0016
Board Independence (BI)	0.027	0.058	0.6413	-0.3305	0.0781	0.0000
Board Size (BS)	0.0165	0.0121	0.1718	0.1358	0.011	0.0000
CEO Duality (CEOD)	0.1349	0.0385	0.0005	0.0083	0.0383	0.8287
Gender Diversity (GD)	0.0146	0.0578	0.8006	0.2058	0.0618	0.0009
Sales Growth (SG)	0.0419	0.0307	0.1728	-0.1296	0.0537	0.016
Leverage (LEV)	0.0615	0.0246	0.0125	0.1413	0.0293	0.0000
R-Square	0.4541			0.7852		
Adjusted R-Square	0.3812			0.7565		
F-Statistics	6.2242		0.0000	27.3525		0.0000
	BANGLADESH			**SOUTH ASIA**		
Variable	**Coefficient**	**Std. Error**	**Prob.**	**Coefficient**	**Std. Error**	**Prob.**
C	0.1589	0.0646	0.0141	-0.3631	0.0246	0.0000
Board Activity (BA)	-0.0643	0.0325	0.048	0.0689	0.0246	0.0051
Board Independence (BI)	0.0325	0.0566	0.5665	-0.1219	0.0375	0.0012
Board Size (BS)	0.0431	0.0122	0.0004	0.1232	0.0059	0.0000
CEO Duality (CEOD)	-0.0460	0.0213	0.0314	0.0847	0.0183	0.0000
Gender Diversity (GD)	-0.0103	0.0624	0.8686	0.1119	0.0356	0.0017
Sales Growth (SG)	0.0617	0.0245	0.0118	0.0344	0.0204	0.0917
Leverage (LEV)	0.0048	0.0236	0.8394	0.0887	0.0157	0.0000
R-Square	0.6813			0.6871		
Adjusted R-Square	0.6366			0.6471		
F Statistics	15.9903		0.0000	17.1721		0.0000

. Board Size has a positive relationship with financial performance of all of the four cases however; it is insignificant only in case of Pakistan. It means large board size leads to better financial performance in all of the countries including India, Bangladesh and for South Asian market as well. Arora and Sharma (2016) and Ahmed et al., (2013) also found that larger board lead to better financial performance. The dual role of CEO leads to better financial performance in case of Pakistan and also for the South Asian Countries in general where the results are significant at 1% level of significance. However this duality leads to negatively affecting the performance of firms in case of Bangladesh at 5% level of significance and insignificant relationship for India. The positive coefficient of Gender Diversity means that the gender diversity lead to better financial performance in case of Pakistan, India and for the overall South Asian market and significant at 1% level of significance for India and for South Asian Market. However it is insignificant in case of Bangladesh. The study conducted by Michael et al (2017), discovered that gender diversity can predict the performance of the firm.

The study also uses two control variables which include Sales Growth and Leverage. Sales growth has a positive sign of coefficient in case of Pakistan, Bangladesh and for the South Asian Market. However, it is significant in case of Bangladesh at 1% and 10% in case of South Asian Market. It means that in these three cases higher sales growth leads to better financial performance. In case of India, surprisingly it is with significant negative coefficient which means growth in sales leads to weak performance of firms in India. In case of Leverage, positive coefficient is found for all four countries and significant for Pakistan, India and South Asian Markets at 1% level of significance which means more debt by firms in these countries lead to better financial performance of firms. Sometime loan providers, provides loan on the condition that company will provide position of independent director to their representative which are outside the organization. ultimately it has some impact on director’s independence. due to this adjustment outsider demand for monitoring will increase. (Leftwich,Watts &Zimmerman,1981). Thus, the debt ratio is considered as an effect on board independence. However, this positive coefficient is insignificant in case of Bangladesh. The F-statistics value is significant in all four cases including Pakistan, India, Bangladesh and South Asian market. The value of adjusted R square is highest in case of India i.e. 76% followed by South Asian Markets with 65%, Bangladesh with 64% and then Pakistan with 38%.

.**Table 4.3: Impact of Overall Corporate Governance Index on Financial Performance of South Asian Markets**

	PAKISTAN			**INDIA**		
Variable	**Coefficient**	**Std. Error**	**Prob.**	**Coefficient**	**Std. Error**	**Prob.**
C	0.1547	0.0384	0.0001	-0.1914	0.0228	0.0000
CG Index	0.1094	0.0396	0.0059	0.5103	0.0214	0.0000
Sales Growth (SG)	0.0731	0.0305	0.0166	-0.1530	0.0440	0.0005
Leverage (LEV)	0.0896	0.0244	0.0003	0.1515	0.0287	0.0000
R-Square	0.4314	-	-	0.7706	-	-
Adjusted R-Square	0.3586	-	-	0.7412	-	-
F-Statistics	5.9276	0.0000	-	26.2472	-	0.0000
	BANGLADESH			**SOUTH ASIA**		

Variable	Coefficient	Std. Error	Prob.	Coefficient	Std. Error	Prob.
C	0.2243	0.0349	0.0000	-0.1407	0.0147	0.0000
CG Index	0.0876	0.0293	0.0028	0.4146	0.0134	0.0000
Sales Growth (SG)	0.0532	0.0244	0.0297	0.0437	0.0199	0.0281
Leverage (LEV)	-0.0093	0.0235	0.6933	0.1137	0.0156	0.0000
R-Square	0.6761	-	-	0.6744	-	-
Adjusted R-Square	0.6346	-	-	0.6333	-	-
FStatistics	16.3090	-	0.0000	16.4359	-	0.0000

The results of second model are presented in the above table where Corporate Governance Index is used instead of individual corporate governance dimensions. The coefficient of CG index is positive for all markets including Pakistan, India, Bangladesh and South Asian Markets which means that there is positive association between corporate governance and financial performance of firms in these four markets. Based on the result it can be interpreted that if Corporate Governance practices are improved in all markets, it leads to better financial performance for these markets. The coefficient is significant for all the four markets where it is significant at 5% level of significance for Pakistan and Bangladesh while 1% for India and South Asian market. The results of the current study are in line with the study conducted by Padmanabha and Rathish (2017) for the Malaysian firms and Zukaa et al. (2018) for the Syrian firms. Both of these studies found that CG Index has positive association with the performance of firms. The results are also in line with study conducted by Dalwai et al. (2015) and Hambrick et al., (2008). With regards to Sales growth which is used as control variable, has same results as reported in the previous table. It is significant in all four markets. The leverage has also the same results where it has positive association with profitability for all the markets except Bangladesh where it has negative association. The adjusted R square value ranges between 36% to 74% for all markets and value of F statistics is also significant for all the four markets.

Conclusion

The study analyzed the impact of individual corporate governance dimensions and Corporate Governance Index on the financial performance of firms in South Asian markets including Pakistan, India and Bangladesh by employing the balanced Panel data methodology.

The study finds that increased Board Activities lead to better financial performance in Pakistan, India and South Asian market in general. Board Independence negatively affects the financial performance of firms in India and for the South Asian Market. Similarly, in case of Board size, the larger board leads to better financial performance in all of the markets of South Asia. The study also finds that the dual role of CEO leads to better financial performance in case of Pakistan and also for the South Asian market however, this duality leads to negatively affecting the performance of firms in case of Bangladesh. The study also find that increased gender diversity leads to better financial performance in case of Pakistan, India and for the overall South Asian market. In general Sales growth also positively affecting the financial performance for Bangladesh, Pakistan and South Asian Market. The leverage in general, has positive association which means the increase in debt leads to better financial performance in all markets including Pakistan, India and South Asian Market.

The study also analyzed the impact of corporate governance on financial performance by using the Corporate Governance Index. The study finds that the CG index positively affects the financial performance for all markets which means the better or improved corporate governance practices leads to improved financial performance for Pakistan, India, Bangladesh and South Asian market.

Based on above findings it is suggested that the financial performance in these three markets including Pakistan, India, Bangladesh and overall analysis of South Asian market, can be improved by implementing better corporate governance practices in general. Furthermore, by frequent meeting of the Board, increasing board size and implementation of CEO Duality and improving the Gender diversity the performance can be enriched in the South Asian markets. Excessive female representation on boards and management teams could be unfavorable to the financial performance. We, thus, recommend that there should be an equitable representation of both men and women on boards and management teams in order to promote appreciable financial performance. Companies in emerging countries need to ensure that the independent directors are not hired for namesake but actually act independently as in the case of developed countries. Therefore, a clear criterion should be put in place for becoming an independent director in a company and the guidelines on corporate governance should take into account this “Cross-board” phenomenon. There are many factors which influence the firm performance and not all of them are used in this study to control the models mainly because of their lack of availability in the database.

The outcomes of the analyses advocated that companies that comply with good corporate governance practices can expect to achieve higher accounting and market performance. It implies that good corporate governance practices lead to reduced agency costs. Hence, it is concluded that firms of the developing world can possibly enhance their performance by implementing good corporate governance practices.

The study is beneficial for investors, taxing authorities, and academician as well. Future research could be made by making comparison of developed and underdeveloped countries. Market based measure could also be used to check the performance. Theoretical implication of this study is that, this study supports agency theory. Agency theorists suggest that due to the separation of ownership and control, board effectiveness plays a critical role in protecting shareholders (Braun & Sharma,2007). The regulatory body is required to ponder about the criteria for selection of outside director with focus on their qualification and expertise.

Future researchers can work further by using a broader spectrum of variables like directors’ remuneration, their shareholding, audit, remuneration or other board committees. It can also be augmented by using qualitative aspects of the board that influence firm performance, such as board decision-making process or director’s perception on the role of board, qualification and age of the director, etc. Also, it is not only the board characteristics which influence firm performance but also the other way round.

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Appendix

Explanation of the Variables:

This section provides description about how variables will be constructed and which formulas will be used.

Board Activity: The attendance of the board members in BM. It is argued that when boards of directors meet frequently, they are likely to enhance firm performance and, thus, perform their duties in accordance with shareholders' interests (Conger *et al.*, 1998). On the contrary, Vafeas (1999) pointed out that board meetings are not necessarily useful, the limited time that the non-executive directors spend together may not be used for meaningful exchange of ideas among themselves or with management. These meetings also involve heavy costs such as managerial time, directors' remuneration, etc.

Board Size: It can be defined as the total number of directors serving on board. Agency theory and resource dependency theory provide fundamental support for an appropriate BOD size. It is suggest that it control agency problem and provide valuable resources to a firm in the form of finance and capital, links to key suppliers, customers and significant stakeholders. Furthermore, board size predicts firm performance. It will measure as; *BS = Total Number of directors represent the board*

Board Independence :BI means the number of non-executive directors in board. An independent board is defined as a board which is having a majority of outside directors that don't involve in business dealings. It will be measured as;$BI = \left(\frac{Number\ of\ non-executive\ board\ members}{Total\ board\ Size}\right)$

CEO Duality: Duality refers to a situation where the chairman and CEO positions are occupied by the same individual. Current study use CEOD as a proxy for corporate governance. Furthermore, agency theory suggests that duality makes an individual practical and self-serving (Donaldson & Davis, 1991). Here CEO Duality is incorporated as a dummy variable which takes a value of 1 if duality exits and 0 otherwise. The formula is; *CEOD = 1 = if Duality exist; 0 = if Duality don't exist*

Gender Board Diversity: The proportion of female members on the board Gender diversity in the boardroom refers to the presence of women on the board of directors (Carter, Simkins, & Simpson, 2003; Dutta & Bose, 2006).

Corporate Governance Index: Extensive literature is available in the area of corporate governance but the methods used for the assessment of corporate governance practices are inconclusive. However, in recent years, many researchers use corporate governance index approach for the measurement of the quality of corporate governance practices (Shahwan, 2015; Durnev, Kim, 2007). Shah and Butt (2009) uses corporate governance index approach for the first time in Pakistan. There is still a controversy about the allocation of weight to different characteristics of corporate governance. In this study principal component analysis will be used, 5 different dimensions of corporate governance will be used for principal component analysis. The overall corporate governance variable are consist of Board Activity (BA), Board Size (BS), Board Independence (BI), CEO Duality (CEOD), Gender Diversity (GD)

Leverage: Leverage refers the level of debt in the capital structure of companies. It is argue that debt changes can affect quality of firms earning. According to the agency theory (Jensen &Meckling, 1976), the inclusion of debt reduces the cost of external equity and increase firm value by motivating managers to align their interests with the shareholders, thus help in minimizing agency cost. Following the previous researchers (Jamalinesari&Soheili, 2015) LEV is used as a control variable. The estimation formula is; $LEV = \left(\frac{Total\ Debt}{Total\ Equity}\right)$

Sales Growth: SG represents an increase in the sale of a company over a specified period of time. It is useful for investors in way to know whether or not the demand of company's product will be increasing in future. Same as Gill and Biger, (2013) it is used as control variable. The formula is; $SG = \left(\frac{Sales_1 - Sales_0}{Sales_0}\right)$

Return on Assets: Return on Assets is an accounting based measure of firm performance (Bhatt & Bhatt, 2017; Rad et al., 2013). It gives an indication about profitability of a firm is relative to its total assets. It is considered as the one of the most reliable measure of profitability. It gives investors a view about how effectively a company is using its assets to generate revenue. The measurement formula is; $ROA = \left(\frac{Net\ Profit\ After\ Taxes}{Total\ Assets}\right)$