EFFECT OF CORPORATE GOVERNANCE ON ASSET'S RETURN: A CASE FROM TEXTILE INDUSTRY OF PAKISTAN

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ABSTRACT

Present research investigates the relationship between corporate governance practices and financial performance in textile sector of Pakistan. This study considers managerial ownership structure, institutional ownership, board structure, non-executive directors, CEO duality, and ownership concentration (representing corporate governance practices) as independent variables. Financial performance (represented by return on assets) is used as dependent variable. However, textile sector of Pakistan is the sector chosen to investigate the relationship between variables mentioned above. However, this study uses data regarding study variables to testify the relationship between them. Secondary sources of data (annual financial statements) are used for data collection regarding variables of this study from the period of 2011 – 2020 (10 years). Annual financial statements of 10 Pakistani textile firms are used as sources for data collection. Collected data is then analyzed through statistical tests (such as correlation and regression) by using Strata. Based on the findings and results, it is concluded that managerial ownership structure, board structure and ownership concentration (independent variables) have significant impact on financial performance (dependent variable) of textile firms in Pakistan. In addition, analysis has proved the insignificant impact of institutional ownership, non-executive directors, and CEO duality (independent variables) on financial performance (dependent variable) of textile firms in Pakistan.

Key Words: Corporate Governance, Corporate Governance Practices, Managerial Ownership Structure, Institutional Ownership, Board Structure, Non-Executive Directors, CEO Duality, Ownership Concentration, Financial Performance, Return On Asset, etc.

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Chapter 1

INTRODUCTION

1.1 Background of the Study

The notion of corporate governance is relatively new in the business world, although the difficulties that it addresses are ones that have existed from the very first day that company activity began (Danoshana & Ravivathani, 2019). The idea of effective corporate governance has been hotly contested since the major corporate scandals. Studies have shown that nations with good corporate governance practices typically have higher business sector growth and development (Almoneef & Samontaray, 2019). Several market experts believe that corporate governance has a significant impact on how well the business sector performs. Contrarily, some market experts believe that corporate governance is one of, if not the most, crucial factors in business that affects a firm's performance (Bhagat & Bolton, 2019). The meaning of corporate governance evolves greatly over the business life cycle. Corporate governance is viewed as a crucial role in a company's ability to build its foundation (Ciftci et al., 2019).

Corporate governance is the body of procedures and guidelines that an organization's association of shareholders, stakeholders, and management is controlled by. Corporate governance measures have the tendency to help businesses attract investment and increase their productivity (Arayssi & Jizi, 2019). Additionally, corporate governance aids in the achievement of business goals and the protection of shareholders' rights (Ahmed et al., 2020). Corporate governance is seen to be crucial in allocating duties and rights among the many parties involved in a company organization, such as shareholders, managers, and the board. Additionally, corporate governance helps to ensure that policies and guidelines, which are important when making decisions on business affairs, are clear (Arif, 2019). Due to a number of high-profile business scandals that have occurred recently, authorities and experts are more interested in discussing corporate governance. Corporate governance is understood to be the internal system for observing and regulating management behaviors. Effective corporate governance helps companies operate better (Akbar et al., 2020).

A framework called corporate governance helps to resolve issues with agency between management and shareholders. According to the report, poor governance was a major factor in

the stock crashes of businesses including Adelfa, Enron, Tyco, and WorldCom (Oztekin et al., 2015). The construction of an efficient governance framework aligns the interests of managers and owners, increases operational performance, and promotes the expansion of businesses (Calomiris & Carlson, 2016). The outcomes of several empirical research carried out in various nations similarly imply that the implementation of a solid governance structure results in the firm performing better (Almoneef & Samontaray, 2019). Corporate governance is described as "responsibilities and practices used by the Board of Directors and managers aimed at determining a strategic direction that ensures achieving objectives, risk control, and responsible use of resources" by (Jesuka & Peixoto, 2021).

The link between the corporate governance system's constituents and firm performance differs in the financial markets of developed and developing nations as a result of the disparate and inconsistent architecture of corporate governance systems in various countries (Arif, 2019). The primary goal of this study is to determine if the elements of corporate governance in firms listed on the Pakistan Stock Exchange cause their performance to stabilize and improve (through performance criteria including return on assets. Without a doubt, we can state that effective firm management enables the entity to achieve high levels of performance (Ali et al., 2021). The most crucial component of corporate governance, the board's structure, has a significant impact on the effectiveness of the board and, consequently, the success of the company. It is important to keep in mind that Iran is a developing nation, and as such, its circumstances differ from those of other developed and developing nations (Bhagat & Bolton, 2019).

Due to these discrepancies, Pakistan is now included among the nations where shareholders and creditors are less protected by present laws and practices, and the spectrum of company owners is not as broad, according to (Almoneef & Samontaray, 2019). Measurable organizational choices and activities that indicate the accomplishments and success of the organization can lead to performance. It is essential to evaluate an organization's performance, and recognized criteria should be applied for this purpose in order to take into account various aspects of activity constraints and facility usage opportunities (Danoshana & Ravivathani, 2019). In accounting studies and research, a variety of metrics have been employed to assess and gauge the performance of business units. These metrics fall into two broad categories: metrics based on the market and metrics based on accounting data. Comparatively, while market-based criteria are

more objective, they are still influenced by a variety of external factors that management cannot control (Ali et al., 2021). Accounting data-based criteria are therefore preferable to market-based criteria for examining the link between corporate governance and financial performance (Ciftci et al., 2019).

Corporate governance is undoubtedly a topic of continuing discussion that requires serious examination to fully comprehend. Corporate governance is seen as being extremely significant and valid for any firm. Several scholars have outlined the function of corporate governance in the world’s growing and developing nations in their research works (Jesuka & Peixoto, 2021). Corporate governance has been examined in research by Shahwan (2015) and Riyasha (2013) in nations including Egypt, Ukraine, Indonesia, Arabian countries, Turkey, Nigeria, Taiwan, Bahrain, Kenya, and Cyprus. Numerous studies have also provided an explanation for the lack of knowledge around corporate governance, which has a big impact on both government performance and business performance. Because corporate governance aids in enhanced allocation and better management of the company’s resources, studies have offered empirical evidence on the effect of corporate governance over improving the performance of the firm. Corporate governance greatly improves business performance, according to researchers from throughout the world (Shahwan, 2015; Riyasha, 2013).

A framework called corporate governance aids management in leading and overseeing businesses. Corporate governance is viewed as a structure that helps balance the interests of many organizational stakeholders, to put it simply (Ali et al., 2021). The basis for a company’s relationships with its stakeholders, shareholders, board, and management is its corporate governance. This framework is in charge of offering a method through which problems involving customers, staff, management, creditors, shareholders, stakeholders, and the general public is handled. Corporate governance is also responsible for the relationships that are established and maintained between external and internal stakeholders (Ciftci et al., 2019). Customers, suppliers, trade creditors, debt holders, and shareholders have all been significant stakeholders in modern commercial enterprises. On the other hand, internal stakeholders include the board of directors, executives, and workers (Akbar et al., 2020). Effective and adequate corporate governance is required to create a competitive market. Corporate governance practices improve and stabilize capital markets while protecting investors (Faleye & Krishnan, 2017). The global financial crisis

that occurred in 2007–2008 has boosted demand for stronger corporate governance standards, which has made corporate governance a more salient issue in emerging economies. Better corporate governance is viewed as crucial for promoting economic growth, enhancing the investment climate, protecting investor rights, and enhancing the performance of the company (Almoneef & Samontaray, 2019).

Corporate governance is a topic that receives a lot of attention in emerging nations. While this is going on, a number of nations still don't have enough knowledge about how effective corporate governance is (Ahmed et al., 2020). The financial crisis was greatly exacerbated by the absence of adequate corporate governance. However, scholarly research pays close attention to corporate governance in both developed and developing nations (Foroughi et al., 2018). Business organizations have been able to specify some management guiding principles through the use of corporate governance. Corporate governance is becoming increasingly important for the growth of a competitive market. Due to corporate governance's important role in improving resource allocation and management, studies conducted throughout the world have produced empirical data demonstrating the impact of corporate governance on business performance (Bhagat & Bolton, 2019). In industrialized economies, a variety of ideas have been employed to explain the idea of corporate governance. According to agency theory, the main goal of corporate governance is to minimize conflicts between managers and shareholders because of their respective interests (Danoshana & Ravivathani, 2019). The stakeholder hypothesis, which asserts that stakeholders rather than shareholders have enhanced understanding of commercial enterprises, effectively explains corporate governance practices. Studies have demonstrated that by emphasizing the common interests of all stakeholders, stakeholder theory may help maximize company performance and provide advantages to all stakeholders (Jesuka & Peixoto, 2021).

1.2 Problem Statement

Since it has been extremely beneficial for employers to realize their collective goals via the implementation of efficient corporate governance practices, corporate governance has been the main problem for managements (Arayssi & Jizi, 2019; Nawaz & Ahmad, 2017). Both management and company experience issues when there is a lack of understanding of corporate governance or when organizational management fails to properly implicate corporate governance practices. This is because they must deal with significant losses in both monetary and non-

monetary forms (Ciftci et al., 2019; Outa & Waweru, 2016). The main difficulty confronting businesses in the 21st century has been managing corporate governance and other corporate governance practices. Additionally, a number of academics have clarified how crucial corporate governance is for commercial enterprises to achieve their goals, much as financial resources (Bhagat & Bolton, 2019). Business managements have used several methods to enhance corporate governance, nevertheless. There is a paucity of knowledge regarding the significance of corporate governance and its role in determining the performance of Pakistani non-financial enterprises (Ali et al., 2021; Arif, 2019). Therefore, the purpose of this study is to ascertain how corporate governance standards affect the financial performance of Pakistan's textile industry.

1.3 Research Gap

Corporate governance and the effect that corporate governance practices have in affecting a firm's success have been among the popular themes that scholars have recently investigated (Danoshana & Ravivathani, 2019). Many scholars in Pakistan have also conducted their studies to determine what corporate governance practices are and how they relate to a firm's success (Ali et al., 2021). However, there hasn't been much study done on how corporate governance affects business performance (Nawaz & Ahmad, 2017). Additionally, there hasn't been enough study done on Pakistani manufacturing companies to demonstrate the link between corporate governance and business performance, which is a significant research vacuum that needs to be filled (Ali et al., 2021; Arif, 2019). Therefore, the goal of this study is to determine the effect corporate governance practices have on the financial performance of Pakistan's textile industry.

1.4 Research Questions

Research questions of present study are as follows:

1. What is the relationship between managerial ownership structure and financial performance in textile sector of Pakistan?

2. What is the relationship between institutional ownership structure and financial performance in textile sector of Pakistan?

3. What is the relationship between board structure and financial performance in textile sector of Pakistan?

4. What is the relationship between non-executive directors and financial performance in textile sector of Pakistan?

5. What is the relationship between CEO duality and financial performance in textile sector of Pakistan?

6. What is the relationship between ownership concentration and financial performance in textile sector of Pakistan?

1.5 Research Objectives

This study is conducted with the aim:

- To assess the relationship between managerial ownership structure and financial performance in textile sector of Pakistan.
- To investigate the relationship between institutional ownership structure and financial performance in textile sector of Pakistan.
- To identify the relationship between board structure and financial performance in textile sector of Pakistan.
- To inspect the relationship between non-executive directors and financial performance in textile sector of Pakistan.
- To determine the relationship between CEO duality and financial performance in textile sector of Pakistan.
- To explore the relationship between ownership concentration and financial performance in textile sector of Pakistan.

1.6 Research Significance

The researcher concludes that corporate governance practices are the primary factor fostering the financial performance of textile enterprises in Pakistan based on the theoretical derivations of financial management. This work has value from both a theoretical and practical standpoint. The current body of research strengthens how much corporate governance practices affect a company's financial performance. Additionally, the current study gives academics empirical support to further investigate the literature issue in the future in order to investigate the link between corporate governance practices and financial performance. Additionally, it helps to

understand the strength of and influential relationships between variables in the current study. The significance of the link between corporate governance standards and financial performance, particularly in textile enterprises in Pakistan, will become clearer to the stakeholders in such companies. Furthermore, current research is crucial for assisting research students in deepening their comprehension of corporate governance and its connected topics. Students studying financial management can also benefit from the current research by learning more about the connections between the study's many factors. This study can add to the body of knowledge on financial management since it addresses the question of how corporate governance practices affect financial performance. These findings may be used to future studies on this literature subject.

Chapter Summary

The history of this subject has been discussed in this chapter. The overview of corporate governance, financial performance, and their interactions came first. Gap analysis and contextual information were used to introduce this chapter. In order to identify the issue that has to be addressed in this study, this chapter has therefore concentrated on identifying the problem statement connected to the literature. On the basis of the earlier stated research problem, this chapter has then established the research questions and objectives.

Chapter 2

LITERATURE REVIEW

2.1 The Concept of Corporate Governance

Corporate governance is the body of procedures and guidelines that a company uses to control the relationship between its shareholders, stakeholders, and management. By enhancing economic efficiency, financial market integrity, and market confidence, association between various parts of an organization serves to contribute to financial and economic stability (Arayssi & Jizi, 2019). Due to its great importance in relation to the state of the economy and its overall impact on society, corporate governance has garnered considerable public interest (Outa & Waweru, 2016). Corporate governance also has an impact on economic growth; therefore various corporate governance failures have made managers aware of the need of excellent corporate governance for the effectiveness of capital market activities. Implementing good corporate governance may increase capital investment as well as advance an organization's goals and lower risk for investors (Oztekin et al., 2015). A thorough literature analysis is necessary to fully comprehend the effects of corporate governance globally. With old theories and modern practices, the corporate governance structure of the aforementioned neo-classical corporation has not been operating in a proper manner as a result of the flaws that result from changes in the nature of legal and economic relationships. It explains why market mechanisms have failed and why practitioners and supporters of such market mechanisms are becoming more desperate (Calomiris & Carlson, 2016).

When speaking about OECD nations, Ghazali (2010) stated that there was a wide variety of corporate-related governance regimes. Although there are a number of variables, including the capital structure, labor market structure, product-related market competition, and the legal and regulatory environment, which have an impact on the effectiveness of these various corporate governance systems. As governments expanded their product lines to lower risk factors, the globalization of the equity market in the 1980s enabled them to open their markets to international investors. These changes cause the operations of the companies to be restructured globally in order to increase stock and shareholder returns. To keep up with the interests of international investors, management contacts with foreign stockholders and shareholders as well

as management-related pay were altered. Executives of the firms were simultaneously acquiring new leadership abilities that would allow them to function well in situations with low levels of foreign stock and stockholders. Institutional investors were also influenced by the globalization phenomenon, which led to minimal risks and great profits outside of the home markets. As a result, institutional investors are increasingly more closely watching the allocation of global norms for corporate governance in developing economies. Due to its recognition that good company governance may significantly influence institutional investors' willingness to participate in developing markets (Honoré et al., 2015).

Corporate governance has been an issue in emerging countries since the financial scandals of the past, as a result of rising demands for stronger corporate governance standards (Danoshana & Ravivathani, 2019). Better corporate governance has been regarded as being extremely important for promoting economic growth, strengthening the investment climate, protecting investor rights, and boosting the performance of the organization (Almoneef & Samontaray, 2019). Corporate governance is a topic that receives a lot of attention in developing nations, yet there are still those that don't have good corporate governance (Akbar et al., 2020). The financial crisis was greatly exacerbated by the absence of adequate corporate governance. However, scholarly research pays close attention to corporate governance in both developed and developing nations (Jesuka & Peixoto, 2021). Although the idea of corporate governance is new, the business problem it addresses has existed since company operations first began. The idea of effective corporate governance has been hotly contested since the major corporate scandals. Business organizations have been able to establish a few management tenets through the use of corporate governance (Ali et al., 2021).

Corporate governance is becoming increasingly important for the growth of a competitive market. The research has shown that nations with good corporate governance practices typically have stronger business sector growth and development. According to some market experts, corporate governance has a significant impact on how well the corporate sector performs (Ciftci et al., 2019). On the other hand, some market experts believe that corporate governance is one of, if not the most, crucial factors in the business sector that affects a firm's success. The meaning of corporate governance evolves greatly over the business life cycle. Corporate governance is regarded as one of the most important functions for securing a company's basis. Corporate

governance is now a topic of discussion that requires careful examination to fully comprehend (Arayssi & Jizi, 2019). The research work of Bhagat & Bolton (2019) and Ahmed et al. (2020) looked at the relationship between corporate governance and business performance. Researchers from all around the world have outlined how corporate governance greatly enhances business performance. For instance, evidence on the impact of corporate governance practices and regulations on the performance of commercial firms has been offered by Arif (2019) in his study. However, there haven't been much research looking into how corporate governance affects business performance in the Middle East and North African (MENA) and United Arab Emirates (UAE) regions.

Over many centuries, established market economies have been slowly constructed via the adoption of sound corporate governance, and this is all a result of industrial capitalism's economic development (Nawaz & Ahmad, 2017). The first firm with more than a thousand investors in its share capital was the Dutch East India Company in the seventeenth century. While in the eighteenth century, the growth of markets and technological advancements increased the complexity and size of businesses, increasing their need for capital. As a result, various corporate governance systems evolve, allowing for the introduction of new prospects and the resolution of economic-related issues. Although the idea of corporate governance is new, the business problem it addresses has existed since company operations first began. The idea of effective corporate governance has been the subject of intense debate following the major corporate crises (Haniffa & Hudaib, 2006). Corporate governance is seen as genuine and extremely significant. Several scholars have outlined the function of corporate governance in the world's growing and developing nations in their research works (Buallay et al., 2017).

2.2 The Evolution of Corporate Governance

The term "governance" comes from the Greek word "Kybernan," which means "to rule, to direct, or to steer." Corporate governance may be broadly described as the interaction between a firm and its stakeholders in society. In any dispute, a number of characteristics of "disturbed" and/or "centralized" control are seen to be extremely important. But these few particular phrases have consistently remained linked in some way (Bocean & Barbu, 2007). When learning about corporate infrastructure or a corporation, this centralized body has a propensity to exert control over a variety of activities that are dispersed throughout the societies, finally leading to the

development of a trend within the culture's economics. When viewed in this light, it is clear how important a firm's contribution to the establishment of economic activities is, as these lines help to restructure the entire economy while strengthening the firm's grip on the production factor, ultimately holding the major significance due to the direct control it has over the market, mechanism, and its flows (Kajola, 2008). However, Riyasha (2013) has shown that the standard understanding of economics raises questions about the structural reality of modern enterprises. Similar to how the traditional definition is generating questions about how businesses are acquiring and holding the market,

The current tendency is more in favor of quantitative growth and goes well beyond qualitative growth. However, without taking into account other considerations, the primary goal of the introduction of transnational or multinational culture into the globe is to boost output and bring it to enormous heights. The emergence of transnational or multinational cultures has paved the way for a new age in which firms may be studied or defined as entities, with quantitative criteria taking the place of qualitative ones to regulate the overall state of the economy (Shahwan, 2015). Mass production in this period has undoubtedly rejected the idea of economic control, leaving only property ownership. A new organizational setup has replaced the control variables by exploiting property in a new method, ultimately representing the current structure of a business, bringing about a revolution inside the framework and infrastructure of a corporation. It has caused a distinction to be made between control issue practices and ownership of economy theories. As a result, a new facet of the relationship between an agent and a principle has evolved due to the structure and business model of organizations (Ciampi, 2015).

The traditional model has not been operating in a proper manner inside the framework of the aforementioned neo-classical enterprise, with conventional theories and new practices, due to the imperfections it possesses as a result of changes in the structure of legal and economic relationships. It explains why market mechanisms have failed and why practitioners and supporters of such market mechanisms are becoming more desperate (Calomiris & Carlson, 2016). Theorists have proposed that governments should take care of the governance of these firms in the situation where the working conditions of firms were changing continuously in order to explain the role based on which such firms must work and perform their processes with respect to regulations such as law regarding agency, corporate, partnership, etc. (Zagorchev &

Gao, 2015). There was a need to increase the stakeholders' interest in the enterprises by providing protection in the form of economic and social cost concerns, notwithstanding the practitioners' apathy in new frameworks and their rejection of market mechanisms. A company, like any other institution, has played a crucial role in the development of any community or civilization (Grassa, 2016).

The adoption of a new strategy has taken place as a result of duties being delegated to the company for the preservation and upkeep of the interests of all business and societal constituents on the basis of ethics and morals. Businesses were recommended to recruit more diverse stakeholder perspectives, such as those from the environment, society, and customers, to make it practicable. Leaders or role models in any nation play a significant part in creating the framework for a governing body to uphold the organizational structure by making contributions in the area of managing ethical concerns (Hutchinson & Gul, 2004). Management of the company must prioritize customer happiness at all levels, regardless of the firm's economic goals for regulating the economy or achieving the required presence in their respective industries. In contrast to managing a business in the past, management of a firm nowadays is exceedingly difficult. To run a business well, a management team must put in a lot of effort to comprehend the dynamics and behavior of the market in which their company has been successful. The use of governance as a weapon against agency concerns (Giroud & Mueller, 2010). Faleye & Krishnan (2017), however, highlighted that the improvements were only brought about by the adoption of a governance framework. Improvements suggest that agents and principle interests are aligned, since the success of their management of the company is determined by its financial performance.

For the first time ever in Pakistan, the institute of chartered Pakistan introduced the corporate governance structure in 1998. On March 28, 2002, SECP released a draught code of corporate governance for all three Pakistani stock exchanges, incorporating requirements into the code's listing rules (Danoshana & Ravivathani, 2019). Corporate governance is seen as genuine and extremely significant. Several scholars have outlined the function of corporate governance in the world's growing and developing nations in their research works (Almoneef & Samontaray, 2019). Corporate governance has been examined in the research by Arayssi & Jizi (2019) and Ciftci et al. (2019) in nations including Egypt, Ukraine, Indonesia, five countries in the Arabian

Peninsula, Turkey, Nigeria, Taiwan, Bahrain, Kenya, and Cyprus. Numerous studies have also provided an explanation for the lack of knowledge around corporate governance, which has a big impact on both government performance and business performance. Because corporate governance aids in enhanced allocation and better management of the company's resources, research have produced empirical evidence on the effect of corporate governance over boosting performance of the firm (Arayssi & Jizi, 2019; Ciftci et al., 2019).

2.3 Corporate Governance Practices

Depending on the type and scale of the organization, independent and non-executive directors may have a good or negative impact on the performance of the company. Ciampi (2015) has concentrated on examining how independent directors and company success are related. This study found a positive correlation between directors' independence and company performance, indicating that when directors' independence increases within an organization, there are more opportunities for enhanced firm performance and vice versa. While Grassa (2016) conducted a survey of US banks between 2000 and 2010 to shed light on the connection between the independence of the board of directors and company performance. According to the study's findings, director independence is positively connected with company success because independent directors have greater discretion and independence when making decisions that would enhance company performance. Furthermore, Outa & Waweru (2016) have demonstrated that independent directors are better equipped to deal with intra-organizational conflicts, collaboration issues, and have improved communication. Similar to this, Oztekin et al. (2015) hypothesized that directors' independence is positively connected with financial performance because a director's level of independence directly affects the firm's financial performance.

The board of directors evaluates organizational performance because independent directors are crucial for keeping an eye on these processes. According to Riyasha (2013), there are several ways in which the independence of the directors affects the performance of the company. The influence of directors' independence on financial performance has varied among US financial and non-financial enterprises. As there have been many opinions on the relationship between directors' independence and firm performance, the academics have not offered any empirical data relating directors' independence and company performance. By giving directors the necessary independence, an organization can monitor its performance and lower the likelihood of

default. According to the agency model, organizations with non-independent board members perform worse than those with independent directors. While the bulk of studies have found a tumultuous association between these factors, Faleye & Krishnan (2017) explain the substantial link between business success and directors' independence. The association between business success and directors' independence is favorable, according to several experts. Few scholars, nevertheless, really believe that there is a negative correlation between business success and the independence of the directors (Zagorchev & Gao, 2015). The arguments made by Shahwan (2015) have aided in understanding the connection between directors' independence and firm performance, as the majority of research conducted in the late nineteenth and early twentieth centuries has ultimately clarified how important directors' independence is to an organization's ability to operate effectively.

A research is done by Honoré et al. (2015) on the performance and independence of directors at Indian commercial banks. The significance of the relationship between director independence and financial performance was also emphasized. A favorable correlation between directors' independence and financial performance was found in the Bluhm et al. (2016) study that looked at the effect of directors' independence on the financial performance of 27 insurance businesses in Jordan. It has been argued that when ownership structure is not clearly defined, management decisions are very unlikely to be properly monitored by shareholders, because shareholders have very little incentive to do such monitoring because monitoring costs of agency outweigh such kind of monitoring, ultimately decreasing firm performance (Abdallah et al., 2017). According to Ducassy & Montandrau (2015), managers are hired by owners (shareholders) as their agents to manage the business on their behalf, establishing an agent-principal relationship. A thorough analysis of the literature reveals that there is a fundamental contradiction between managers' and shareholders' interests as a result of shareholders' use of managers to further their own goals. Although it is widely observed that managers' interests diverge from those of shareholders, doing so will reduce shareholders' wealth, as managers' act in their own interests (Amba, 2014). According to Aguilera & Crespi-Cladera (2016), the analysis that is deeply relevant to the conflict between managers and shareholders explains the fundamental framework that reduces shareholders' wealth in the context of the relationship between agent and principal. This will cause a number of conflicts or problems related to agency while both managers and shareholders

are maximizing utility in their own interests, and in several cases, the managers diverge from the pledged obligation.

There is still a case to be made for significant shareholders with substantial ownership concentration to put their own interests first since there are so many potential issues with agency between shareholders and management. By treating shareholders' conflicts and management conflicts as a single entity, managerial ownership can help the agency find a solution to this challenge. Aligning the interests of shareholders and managers may be accomplished in large part through managerial ownership. Leng (2004) also made the following observation: If there is an increase in ownership concentration, there will be an increase in costs and benefits related to the same owner. As a result, it can be concluded that larger shareholders will likely be more active in corporate related governance for the prevention of information asymmetry between agents and principals because they have larger stakes in the company and more risk to bear. As a result, shareholders will be more likely to receive returns that are higher than their shares and to experience an increase in performance as agency expenses decline (Grassa, 2016).

The groundbreaking study carried out by Nawaz & Ahmad can be linked to the current understanding of the relationship between agent and principle (2017). Both of them have noted that throughout the late nineteenth and early twentieth centuries, conventional family ownership was the predominate method of operation in American industry, which had an impact on the separation of control and ownership of enterprises. A new group of management has taken over control of American businesses, virtually rendering the smaller stockholders impotent. Due to important concerns with manager practices and company governance in the 1929 Wall Street crisis, this was a prominent idea during the Great Depression of the 1930s. Therefore, the modern inception of studies relating to corporate governance states that there should be presumably existence of divergence between managers' and shareholders' interests, and without the presence of appropriate structure for managers; they can act according to their own interests, centered on the idea that corporate governance can be used to determine outcomes of firm. Due to their incentives, capacity, and motivations in monitoring managers for control in benefit shared by both parties (i.e., the benefit will be mutual for shareholders regardless of their size), shareholders are better able to mitigate agency problems when there is a clearly defined, controlling, and large structure of an ownership in a firm (Oztekin et al., 2015).

Corporate governance also affects the economy's potential for growth; therefore several corporate governance failures have made managers worldwide aware of the benefits of excellent corporate governance for the effectiveness of activities associated to the capital markets (Outa & Waweru, 2016). While both managers and shareholders are maximizing utility in their own interests, Ghazali (2010) has thoroughly explained the analysis pertaining to the conflict between managers and shareholders. It explains the fundamental framework which reduces the wealth of shareholders in the context of the relationship between agent and principal, which will lead to several conflicts or problems related to agency. In several cases, the managers diverge from the pledged obligation they have to. Corporate governance has garnered a lot of public attention because of its significant importance in relation to the state of the economy and its overall impact on society. Aligning the interests of shareholders and managers may be accomplished in large part through managerial ownership. In addition, Zagorchev and Gao (2015) made the observation that as ownership concentration rises, costs and benefits associated with the same owner will also rise. From this, it can be concluded that larger shareholders will likely be more involved in corporate governance to prevent information asymmetry between agents and principals due to their higher stakes in the company and increased risk.

According to Shahwan (2015), the interaction between the agent and the principal under the agent theory results in the agent acting in a way that maximizes utility. This behavior is based on the management remuneration of the company, such as the market or income value. Previous studies have shown that the CEO's salary is decreased when the board has decision-making authority over the company. This backed the idea that boards, which may oversee management decisions, should govern the CEO's salary. As a result, independent compensation committees are thought to have better knowledge about earnings. Whereas, according to Ciampi (2015), the existence of an audit committee is only a formality until such time as the committee is entirely autonomous, has members who are financially literate, and has full access to information and expert guidance. To enhance the company's internal control structure, Calomiris & Carlson (2016) suggested that the Cadbury committee be composed completely of non-executive directors, in accordance with the OECD's guidelines and the committee's charter. As Riyasha (2013) notes, auditing committees with a greater proportion of non-independent directors have a lower likelihood of producing reports addressing ongoing concerns. Despite this, Grassa (2016) cites the data that shows the establishment of independent committees for auditing has a

favorable impact on the value of financial-related statements. Similar to Kajola (2008), non-executive directors should be positioned as a buffer between management and the external auditor if the auditor's independence is improved.

Honoré et al. (2015) recommended that subcommittee of audit assume the most significant choices and procedures, such as remuneration, audit, and committees' nomination. However, Haniffa & Hudaib (2006) claim that these chosen committees create boards that can manage the constraints of limited time and information complexity that they would face. Good quality financial reporting and board accountability were seen as crucial aspects in light of the financial scandals of the 1980s. Relationships between audit committees and financial information reliability are the subject of conflicting empirical data. Information about financial data is most trustworthy when it comes from companies having audit committees. On the other hand, companies without an auditing committee won't have as much trustworthy data. Additionally, Giroud & Mueller (2010) stated that audit committees serve as a crucial board structure mechanism by providing independent, expert scrutiny of business operations for the defense of shareholder interests. As opposed to this, Faleye and Krishnan (2017) claim that the monitoring function is formed for the monitoring of the executing functions connected to nomination, payment, and audit. This is explained by the principle related agency theory.

In the meanwhile, Foroughi et al. (2018) believe that business failures in the past were caused by insufficient governance frameworks, which should be revived by boards taking action to fix failed enterprises. The business community emphasized the significance of these committees. According to the Cadbury Committee's 1992 report, the board should appoint subcommittees to oversee three different tasks, including the selection of the audit committee's officers and directors by nominating committees, the determination of executive compensation by compensation committees, and the oversight of external audits and accounting procedures by audit committees. Nomination committees help the board of directors fill open or new positions by proposing candidates; as a result, the engagement of the board members—including the CEO in the nomination process—is diminished. The establishment of independent committees for auditing does, however, appears to have a favorable impact on the value of financial related statements, according to Ghazali (2010). One of the fundamental advantages offered by nomination committees is that they will choose people to represent shareholders' interests as

their champions. The CEO's authority can be balanced, as several Asian businesses expand the board's oversight role by forming board committees. Another crucial factor is the board committee, which has the power to fire the CEO based on the company's bad performance. These committees are a key component of the governance system since the relevance of the board's monitoring job has risen.

2.4 Financial Performance

Because management effectiveness of the enterprises is based on the failure or success of the firm, corporate governance practices have an impact on the performance of business firms all over the world. By wise resource allocation and improved firm resource management, good corporate governance practices boost a company's financial performance. The earnings that follow an improvement in performance greatly raise the company's share price (Grassa, 2016). According to Ducassy & Montandrau (2015), excellent corporate governance standards not only boost share demand but also have a favorable impact on a company's share price by driving it up. While Buallay et al. (2017) asserted that there are several definitions of firm performance in the literature. For instance, both definitions from accounting and the market are frequently utilized to examine the connection between a company's performance, its corporate social responsibility, and its corporate governance. Instead of taking into account profit that is allocated to shareholders, stakeholder views on company performance perceive it as the business's entire wealth created before it is distributed to other stakeholders.

The financial value of a corporation has been determined on its performance in literature. According to Amba (2014), corporate governance has an impact on financial value since it reduces the value of insider expropriation and increases the value of anticipated cash flows, which may then be dispersed among investors. Four methods for determining financial value have been discovered in the corporate finance literature. Before assessing and determining the source of finance's influence on the value of the organization, the first strategy is financial management, which mainly concentrates on the cash flow's estimation and levels of investment. The second strategy is capital structure, which focuses on the analysis of how changes in capital structure effect a company's value and how these impacts are influenced either directly or indirectly by various elements, such as the stock and debt components of the company's capital structure. The third strategy is research-based and bases a firm's performance on its resources.

The fourth and final strategy is sustainable growth, which really covers the preceding three financial value strategies and is sustainable for business resources and financial value maximization (Aguilera & Crespi-Cladera, 2016).

These metrics are primarily historical and may be used to look backward at prior success, excluding hazards, the need for investments, and the time value of money. The value of the company's common stock may be described using market-based metrics, which can also be influenced by a number of other factors outside the firm's management's control. This may also be seen in risk performance that has been altered without adversely affecting multinational or multi-industry situations (Shahwan, 2015). Financial indicators are viewed as future prospects and may be utilized to display present strategies and goals, as Nawaz & Ahmad (2017) describe. Results of the study conducted by Riyasha (2013) have demonstrated that there is a critical association between integrated leadership structure and accounting-based indicators. Grassa (2016) discovered no consistent association between the success of the business and corporate governance without taking into account the type of performance metric that is utilized, which can be either market-based or accounting-based measurements.

By wise resource allocation and improved company resource management, good corporate governance practices improve business performance. The earnings that follow an improvement in performance greatly raise the company's share price (Giroud & Mueller, 2010). However, according to Ghazali (2010), corporate governance has an impact on financial value since it lowers the value of insider expropriation and raises the anticipated values of cash flows, which may then be dispersed among investors. The value of the company's common stock may be described using market-based metrics, which can also be influenced by a number of other factors outside the firm's management's control. 155 examples of real estate investments and property-related businesses that are listed on the stock markets in Malaysia, Hong Kong, and Singapore may be used to examine the influence of the board's size. Value of the firm and size of the board relationship might be considered as favorable from the perspective of property-related enterprises. The success of a company and the size of the board are inversely related. Furthermore, Bocean & Barbu (2007) noted that businesses operating in high technology industries in emerging economies have diluted ownership structures. Meanwhile, businesses with a high concentration of ownership that operate in highly developed industries. It is clear from the

data that businesses with a high ownership concentration do better than those with a low ownership concentration.

2.5 Relationship Between Corporate Governance Practices & Financial Performance

Calomiris & Carlson (2016) found conflicting results on the influence that board size has on business performance. In order to demonstrate the effect of board size on the businesses' performance, the study employed a large sample of 2746 listed companies from the years 1981 to 2002. Board size was determined by the number of directors on the board. The findings showed that the board size had a detrimental effect on factors related to company performance. The study has offered empirical proof that the reduction in effectiveness of bigger boards is caused by issues with decision-making and communication. The results also demonstrated that there are greater opportunities for a link between board size and company success in large enterprises. Shahwan (2015) has demonstrated, however, that there is no correlation between the success of Turkish firms and the size of their boards. According to Zagorchev and Gao (2015), there is a bad correlation between board size and business value. According to the report, financial markets have responded favorably to the announcement of the board's reduction. The statement about increasing the number of directors on the board, on the other hand, has undoubtedly decreased the value of shares. The findings of this study cannot be generalized to all businesses. This study's conclusion is that statements about board size only have an impact on small and medium-sized businesses, but announcements about board size have no impact on large businesses.

Outa & Waweru (2016), on the other hand, have concentrated on establishing a link between corporate governance and operating performance in a politically and economically unstable nation like Sri Lanka. 37 businesses are listed in the 2003–2007 data collection. Data showed that implementing corporate governance regulations considerably improves market performance and business profitability. However, in order to assess business performance, Nawaz & Ahmad (2017) included 28 developed country transition economies from Central and Eastern Europe. The data used in this study was collected between the years of 2002 and 2009. The results have identified that there exists a U-shaped relationship amongst firm performance and ownership concentration. Firm performance is greatly improved by increasing ownership concentration to a level of 50%, but performance is noticeably decreased when ownership concentration exceeds

55%. This deterioration is brought on by the block holders' exclusive enjoying of advantages at the expense of other shareholders.

Additionally, Oztekin et al. (2010) have demonstrated the inverse relationship between board size and business performance. This association has been quantified using data from the years 1984 to 1991 from Tobin's study of 452 major US public companies. Tobin excludes the financial and utilities sectors from the sample because of BOD-enacted rules in those industries. The findings indicate that a small board has a favorable impact on financial ratios. Meanwhile, according to Grassa (2016), companies with diluted ownership structures are operating in the high technology industries in emerging economies. However, businesses with a high concentration of ownership that operates in highly developed industries. It is clear from the data that businesses with a high ownership concentration do better than those with a low ownership concentration. Additionally, Oztekin et al. (2015) demonstrated a negative correlation between board size and business value. According to the report, financial markets have responded favorably to the announcement of the board's reduction.

According to Ahmed et al. (2020), larger boards will be far less likely to generate and accept novel ideas or come to an understanding about differences of opinion, which will reduce the effectiveness of the boards' ability to provide managers useful suggestions and ideas. Conflict amongst board members will not properly serve the interests of shareholders, which exacerbates agency issues. The topic is concluded by Bhagat & Bolton (2019), who note that there is ongoing disagreement on the appropriate board size. There isn't a concrete formula that can be applied to determine the number of directors on the board; studies have generated mixed findings, with some favoring larger boards while others favor smaller ones. According to Jesuka & Peixoto (2021), there is less coherence and inadequate communication across huge boards, which will affect how effectively they can carry out management monitoring. This causes the firm's performance to decline and the agency's troubles to grow. Smaller boards, on the other hand, are predominated by the CEO, who holds a more powerful position within the board and is able to veto any decisions made by it according to their own interests, which would exacerbate agency issues and, thus, harm the performance of the organization (Ali et al., 2021).

Furthermore, Grassa (2016) discovered that there is a negative link between board size and business performance in terms of return on assets among 879 small and medium-sized Finnish

enterprises during the years 1992 to 1994. According to Ciampi (2015), the incremental expenses would rise as the number of board members increases. The market value of a little board will be high. Through the analysis of many independent factors, the author of the paper explains why businesses and organizations are highly valued in capital markets. Examples of such factors include the size and diversity of the organization, the availability of chances for expansion, and board composition. Such independent factors have little bearing on the findings of how tiny boards for business enterprises have led to an improvement in firm performance. Small boards are seen to be more efficient than large ones in contrast to big businesses since bigger boards create more obstacles to communication and process efficiency (Honoré et al., 2015).

2.6 Theoretical Evidence

Larger organizations, primarily publicly traded businesses, have organizational-related frameworks that distinguish between the ownership and control of principles and actors (Akbar et al., 2020). Owners, or the principles of an organization, choose agents, or managers, to operate it effectively. Agents are paid for their work in the form of financial compensation, such as bonuses and salaries, among other things. The relationship between shareholders and management is impacted, and conflict may result, if there is a conflict between their interests. To examine this contentious relationship between managers and owners, agency theory has been applied (Ciftci et al., 2019). The essential tenet of agency theory is that conflict between shareholders and management results from differences between their competing corporate-related ties (the agents are considered to be opportunistic). The hypothesis is predicated on a number of assumptions. The theory is predicated on the following key premises: (1) managers may prioritize their own utility over maximizing shareholder value (Arif, 2019); (2) when contracts are written and enforced, this process is not free (Danoshana & Ravivathani, 2019); (3) asymmetrical information distribution between agents and principals; and (4) the parties' rationality is constrained or limited (Almoneef & Samontaray, 2019).

According to the agency theory, if information is shared asymmetrically between shareholders and managers, there will be no accurate method for the principals to evaluate the performance of managers, and managers are the only ones who are familiar with every aspect of every business operation (some costs may have been incurred at the expense of shareholders). Residual related losses, bonding charges, and monitoring fees are included in the agency's costs (Bhagat &

Bolton, 2019). The expenses that the shareholders expend to keep an eye on the manager's behavior are known as monitoring-related expenses. Bonding expenses are those expenses that might be financial or non-financial. These are mostly utilized while establishing up systems or organizations for management. These methods ensure that management operates in the best interests of the shareholders because, if they don't, shareholders will be reimbursed (Jesuka & Peixoto, 2021). residual losses when agents' and principals' actions conflict with one another in pursuing their own interests, even (or especially) when bonding and monitoring-related activities fail. Arayssi & Jizi (2019) assert that because the costs of upholding the complete contract outweigh its advantages, the amount lost in residual loss equals the lost value of profit.

This theory also views the relationship between managers and shareholders as a classic agent-principal one, in which managers are employed by owners to operate the company in a way that is most advantageous to owners, and the managers are compensated for their efforts with salaries and bonuses (Akbar et al., 2020). These efforts put in by agents cannot be fully observed by principles, creating an information asymmetry that makes it difficult for principles to compensate agents according to greater effort. As a result, agents who are risk-averse receive greater rewards because they have fewer incentives to make even greater efforts (Ahmed et al., 2020). The establishment of a balance between taking on risk and the effectiveness of managers is the pertinent problem in this case. Agency has an inherent risk-incentive dilemma in its connection with clients. The owner can use a variety of monitoring-related strategies to influence managers' activities as desired while spending money on monitoring to reduce information asymmetry (Ali et al., 2021).

Asymmetrical knowledge leads to a variety of issues, including issues with moral hazard and poor choices. The principals also have a variety of selection issues since they are unable to choose the finest candidate for the position because they do not fully comprehend the talents of the agents at the time of hiring. Arif (2019) is the first to raise the agency-related moral hazard issues. These issues mostly occur when managers don't carry out their managing duties in the owner's best interests. Since the principle is unsure of the entire scope of the issue, they need information to track and gauge the managers' degree of effort before properly recognizing it. Literature identifies where these kinds of issues originate. Numerous factors, including free cash flow, managers' investment decisions (over or under investments), and earning retentions, may

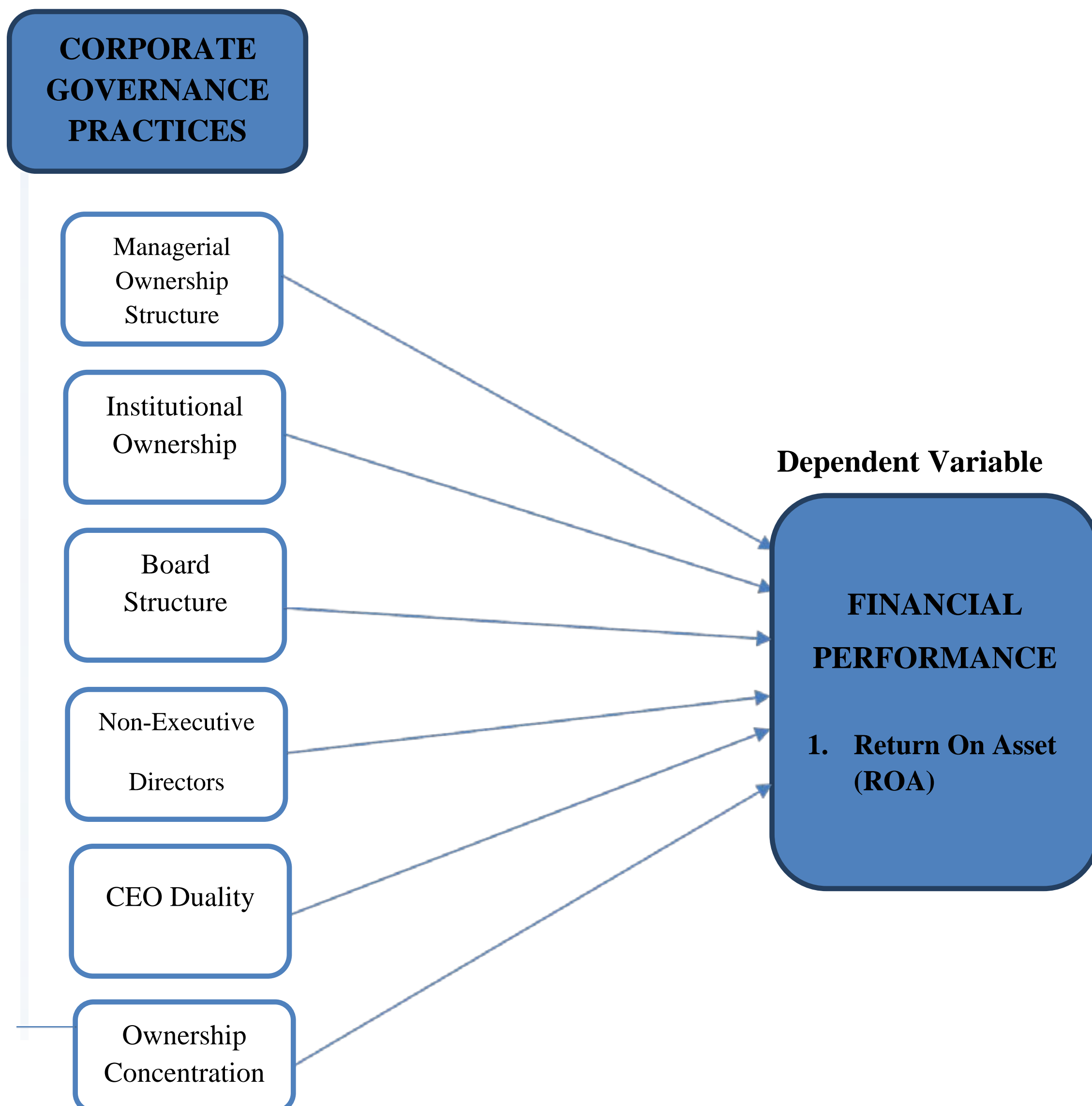
contribute to these issues (Ciftci et al., 2019). In general, both agents and principals have had to make trade-offs between incentives during practice. The principal should encourage agents by offering a variety of rewards, such as performance-based incentives, and by sharing risk, whereas agents must be protected from risk by low performance-based incentives. Therefore, the incentive-risk sharing conundrum serves as the root of the agency issues (Almoneef & Samontaray, 2019).

Danoshana & Ravivathani (2019) outlined the relationship between the principle and agent and further investigated the ownership structure of the company, focusing on the manager equity ownership as a tool to align the interests of both managers and owners. The role of the board of directors in scrutinizing executive managers and their potential opportunism in large businesses was also discussed by Bhagat & Bolton (2019). Therefore, agency theory concentrated mostly on institutional arrangements (connected to organizational and ownership structure) that may affect conflicts of agency. Property rights are directly connected to this because they may be used to assess the relationship between a principal and an agent. The principal-agent related paradigm's standout characteristics are that it: (1) offers various explanations and solutions to a variety of problems faced by agencies; and (2) also provides methods for resolving disputes and conflicts through the creation of incentive-alignments and governance mechanisms, respectively (Bhagat & Bolton, 2019).

NEDs are the component that play vital role in supervising and monitoring of executives, because of assumption their main concern is with their own reputation, according to agency theory, which states that mechanisms for corporate governance in terms of directors of the board depend upon duality of the CEO, NEDs, and size of the board (Jesuka & Peixoto, 2021). Due to their competence, external knowledge, and efficiency in the monitoring function, NEDs have increased the value of enterprises. The theory of resource dependency views NEDs as a fundamental element for improving business performance because of their input into decision-making (such as those pertaining to strategy and investment planning) and the usefulness of their networking with stakeholders and the outside world (Akbar et al., 2020). Therefore, the theories of resource dependency and agency predict a positive and casual relationship between a company's performance and the presence of NEDs (i.e., board independence), whereas the

theory of stewardship asserts that inside directors can manage monitoring more effectively than NEDs because of their greater knowledge of the firm's operations (Arayssi & Jizi, 2019).

2.7 Theoretical Framework



2.8 Research Hypotheses

Following are the research hypothesis of this study:

H_1. Managerial ownership structure significantly impacts financial performance in textile sector of Pakistan.

H_2. Institutional ownership significantly impacts financial performance in textile sector of Pakistan.

H_3. Board structure significantly impacts financial performance in textile sector of Pakistan.

H_4. Non-executive directors significantly impacts financial performance in textile sector of Pakistan.

H_5. CEO duality significantly impacts financial performance in textile sector of Pakistan.

H_6. Ownership concentration significantly impacts financial performance in textile sector of Pakistan.

Chapter 3

RESEARCH METHODOLOGY

Introduction

The approach for determining how corporate governance practices affect financial performance is included in this chapter. The study methodology and methods utilized for data collecting and analysis are highlighted in this chapter. This chapter covers information about the study's design, population and sampling, data gathering methods, and analytic strategies, among other things. The link between corporate governance practices and financial performance is examined using the approach adopted in this study.

3.1 Research Design

A research design is a road map for gathering, measuring, and interpreting data in order to reach a conclusion. It is simply described as a technique utilized by any study to gather data, analyze that data, come to a conclusion, and then offer suggestions based on that finding (Mackey & Gass, 2015). A researcher may utilize a variety of approaches, such as mixed methodology, qualitative methodology, and quantitative methodology, among others. The term "qualitative methodology" refers to a methodology that focuses on evaluating the subject's feelings. Quantitative methodology, on the other hand, is a sort of approach that focuses on identifying statistical differences between research variables. Mixed technique is a sort of methodology that emphasizes subject emotions as well as statistical disparities between research variables (Kumar, 2019). Since the current study employs secondary data and primarily focuses on evaluating statistical differences between variables, it is based on the qualitative research methodology. The link between corporate governance practices and financial performance is evaluated using a qualitative research methodology.

3.2 Research Variables

Two types of variables are used in this study. Managerial ownership structure, institutional ownership, board structure, non-executive directors, CEO duality, and ownership concentration (representing corporate governance practices) are considered as independent variables. Meanwhile, financial performance (represented by return on assets) is used as dependent

variable, to investigate their relationship in textile sector of Pakistan. Following abbreviations are used in case of variables for simplicity purposes.

Managerial Ownership Structure = “MOS”

Institutional Ownership = “IO”

Board Structure = “BS”

Non-Executive Directors = “BNEDS”

CEO Duality = “CEO Dual”

Ownership Concentration = “OC”

Return On Asset = “ROA”

3.3 Type of Study

Correlational is the type of investigation for present study, as this study focuses on assessing the correlation between corporate governance practices and financial performance.

3.4 Time Horizon

Present study is a longitudinal study because it involves observation of data from a population at different points in time.

3.5 Research Interference

The researcher’s role is essential. For the current study, the researcher used secondary sources to gather data. Calculations using statistical tests are done to establish the link between the study’s variables. At the conclusion of the current study, the researcher formulates conclusions and recommendations.

3.6 Unit of Analysis

Unit of analysis for this study are the textile firms of Pakistan.

3.7 Population

The term “population” refers to the individuals, occasions, or objects relevant to the subject under investigation. Population is simply the targeted group that a study is interested in studying (such as individuals, events, associations, etc.) (Kumar, 2019). The researcher’s targeted population for this study is Pakistani textile companies. Because it is impossible to collect data from every company that makes up the whole population, the sample that will be picked will reflect the entire population. Therefore, to ensure adequate representation of the complete population, a trustworthy sample must be chosen using a legitimate source for sample size selection (such as the Morgan Table, Sample Size Calculator, etc.).

3.8 Sample Size

The choice of the ideal sample size is crucial for every research project since real study cannot be done without the right sample size. Morgan’s Table is used for finalizing the sample of 10 textile firms of Pakistan with 100 observations is finalized to represent entire population, as 10 textile firms are finalized as sample to represent entire population. As a sample; panel data of managerial ownership structure, institutional ownership, board structure, non-executive directors, CEO duality, ownership concentration, and return on assets from the period of 2011 – 2020 is collected in order to explore the relationship between variables of the study. Data regarding managerial ownership structure, institutional ownership, board structure, non-executive directors, CEO duality, ownership concentration, and return on assets is collected by using annual financial statements for 10 textile firms of Pakistan. Since there is a limited amount of time available to complete this research, data from the last 10 years are all that may be used for analytical purposes in this study.

3.9 Sampling Technique

The technique of random sampling enables the researcher to randomly collect data from the population (Kumar, 2019). This method gives each company included in the population an equal opportunity to be chosen as a sample and is used to randomly gather data from the population. Since random sampling approach is the simplest simple probability sampling strategy, it is chosen. Data on corporate governance practices and financial performance over the preceding

ten years (2011 - 2020) for ten textile enterprises in Pakistan are obtained using a random sample approach.

3.10 Data Collection Method

The data used in this study were gathered from secondary data sources. For the purpose of evaluating their relationship in the Pakistani textile industry, data on managerial ownership structure, institutional ownership, board structure, non-executive directors, CEO duality, ownership concentration, and return on assets for the previous ten years (from the years 2011 to 2020) are gathered as a sample.

3.10.1 Data Selection

In order to finish the data collection procedure in a way that is suitable given the time constraints, data pertaining to the study’s variables are carefully chosen. To find the significant correlation between the study’s variables, data on corporate governance practices and financial performance are taken from the period of 2011 to 2020 (10 years).

3.10.2 Source of Data Collection

Data of managerial ownership structure, institutional ownership, board structure, non-executive directors, CEO duality, ownership concentration, and return on assets from the period of 2011 – 2020 is taken from the annual financial statements of textile firms in Pakistan.

3.11 Data Analysis Techniques

Data analysis (based on a number of statistical tests) is done after data collection in order to assess the study’s hypotheses. By taking the average, unbalanced data over the past 10 years on return on assets (dependent variable), managerial ownership structure, institutional ownership, board structure, non-executive directors, CEO duality, and ownership concentration (independent variables) are balanced. Utilizing Strata software, a relationship between corporate governance practices and financial performance is determined each year. The breadth and direction of the association between corporate governance practices and financial performance in Pakistan’s textile sector are determined by further data analysis using the Strata Software.

3.12 Analytical Model

3.12.1 Panel Data Analysis

The association between corporate governance practices and financial performance is examined using the panel estimation approach. Time series and cross-sectional approaches are dominated by panel data techniques. Panel data dominates because of its value in terms of minimal co-linearity among the variables. An approach like panel data estimation offers additional room so that various robustness tests may be carried out. Additionally, this method offers results that are generalizable when it's necessary to evaluate the link between several variables. In order to conduct an effective study, panel data approach is favored over cross-sectional and time series techniques.

3.12.2 Descriptive Statistics

Mean, standard deviation, minimum and maximum values are depicted through descriptive statistics and 100 observations are studied for specific variables from 2011 – 2020.

3.12.3 Correlation Analysis

The statistical test known as correlation analysis evaluates the link between two or more variables. The strength and direction of the association between two or more variables are evaluated in a correlation study.

3.12.4 Regression Analysis

The statistical test known as regression analysis evaluates the strength of the link between two or more variables.

3.13 Variables Measurement

Corporate governance practices and financial performance are calculated through formulas as follows:

3.13.1 Dependent Variable

ROA = Return on Assets = Net Income / Total Assets

3.13.2 Independent Variables

OS = Managerial Ownership Structure = Ratio of sum of director and executives to total shares

IO = Institutional Ownership = Ratio of institutional ownership to total shares

BS = Board Structure = Natural of log total number of directors on board

B-NEDs = Ratio of Number of Non-Executive Directors to total number of directors on board

CEO Duality = 0 if only chairman of Board and 1 if both chairman of Board and CEO

OC = Ownership concentration = Ratio of Top 5 large shareholdings to total shares

3.14 Research Model

Regression Model:

ROA= b0 + b1*OS + b2*IO + b3*BS + b4*B-NEDs + b5*CEODual + b6*OC

Chapter 4

DATA ANALYSIS AND FINDINGS

Introduction

In this section, the researcher discusses the outcomes and scrutiny of the information collected through the secondary sources. At the end of this section, the reader will have a complete 360-degree view and knowledge of the whole data and how it was arranged and from where it was collected. The first step of this data analysis has been data entry and data coding.

4.1 Data Analysis

4.1.1 Descriptive Statistics

Descriptive Statistics

Variable	Observations	Mean	Std. Dev.
ROA	100	.0427	.0731
OS	100	.2619	.2937
IO	100	.0689	.0735
BS	100	.0534	.1192
OC	100	.6290	.1685
BNEDS	100	.5891	.1742
CEO Dual	100	.1782	.3953

Return on asset has the mean of 4.27 percent with 7.31 percent of standard deviation suggesting that return on asset change as a result of corporate governance practices by 4.27 percent. Ownership concentration has highest mean value of 62.90 percent shows that it is such a corporate governance practice which has maximum impact on financial performance (ROA). On the other hand, board structure is having minimum impact over financial performance (ROA) because of it having minimum mean value of 5.34 percent.

4.1.2 Correlation Analysis

Correlation refers to the assessing of relationship amongst two or more variables. Correlation is recognized high in case of strong relationship occurring amongst two or more variables. However, correlation is recognized low in case of weak relationship occurring amongst two or more variables. Meanwhile, correlation is recognized as moderate when there is a moderate strength of relationship amongst two or more variables. Correlation-coefficient range is between -1 to +1.

Correlation Analysis

	ROA	OS	IO	BS	OC	BNEDS	CEO Dual
ROA	1.0000						
OS	-0.1012	1.0000					
IO	0.0423	-0.1764	1.0000				
BS	0.1155	-0.2291	0.1107	1.0000			
OC	0.0923	-0.1305	-0.1506	-0.0489	1.0000		
BNEDS	-0.0341	-0.2236	0.0407	0.0676	0.0117	1.0000	
CEO Dual	-0.0688	0.1171	-0.0440	-0.1233	-0.0258	-0.1623	1.0000

The aforementioned table demonstrates that there is an association between management ownership structure and return on asset, with a magnitude of .101 and a negative direction. The magnitude of .042 and positive direction of the relationship between institutional ownership and return on asset is also demonstrated. There exists an association between board structure and return on asset, meanwhile with a magnitude of .116 and is skewed in the direction of positivity. Additionally, the link between ownership concentration and return on asset exists with a

magnitude of .092 and is skewed in the direction of positivity. The association between non-executive directors and return on assets exists with a magnitude of.034, and it is skewed in the negative direction. There exists an association between CEO duality and return on asset with a magnitude of.069 and is skewed in the negative direction.

4.1.3 Regression Analysis

Regression Analysis

ROA	Coef.	Std. Err.	t	P>|t|
OS	-.02281	.0078	-2.87	0.002
IO	.0327	.0241	1.39	0.192
BS	.0287	.0213	2.13	0.028
BNEDS	.0081	.0134	0.42	0.732
CEO Dual	-.0079	.0091	-0.74	0.601
OC	.0285	.0138	2.49	0.028

The table above shows that p values of ownership structure, board structure, and ownership concentration are 0.002, 0.028, and 0.028 (which are less than 0.05) respectively, showing that .return on assets is affected by these corporate governance practices. On the other hand, p values of institutional ownership, non-executive directors, and CEO duality are 0.192, 0.732, and 0.601 (which are more than 0.05) respectively, showing that return on assets is not affected by these corporate governance practices.

4.2 Data Findings

Data Findings

Hypothesis	**Statement**	**Accepted/Rejected**
H1	Managerial ownership structure significantly impacts financial performance in textile sector of Pakistan.	Accepted
H2	Institutional ownership significantly impacts financial performance in textile sector of Pakistan.	Rejected
H3	Board structure significantly impacts financial performance in textile sector of Pakistan.	Accepted
H4	Non-executive directors significantly impacts financial performance in textile sector of Pakistan.	Rejected
H5	CEO duality significantly impacts financial performance in textile sector of Pakistan.	Rejected
H6	Ownership concentration significantly impacts financial performance in textile sector of Pakistan.	Accepted

Chapter 5

CONCLUSION AND RECOMMENDATIONS

5.1 Discussion

The goal of this study was to evaluate the connection between corporate governance and the financial performance of Pakistani textile companies. Annual financial statements are a secondary source of data that was employed in this study's data collection and analysis. To verify the link between the variables in this study, data on 10 textile companies is gathered over the last 10 years (2011 – 2020) using their official annual financial statements. The researcher has concentrated on outlining how this research relates to the contemporary world and situation, as well as how it may be improved in the future. A scale is established that spans from 5% of the significance level (p value). The hypotheses (H1, H2, H3, H4, H5, and H6) are accepted or rejected based on this scale. Focusing on the p value for each variable's significance level, H1, H3, and H6 are acknowledged as being significant. Because of their strong link with financial performance and their p value being less than 0.05 (within the acceptable range), H1, H3, and H6 (which are established in line with the theoretical framework) are regarded to be approved.

Hypothesis 1 'Managerial ownership structure significantly impacts financial performance in textile sector of Pakistan' has been accepted in correlation and regression analysis. Findings of the present research through correlation and regression analysis have proved that managerial ownership is significantly related with financial performance in textile sector of Pakistan. Significant relationship between managerial ownership and financial performance is supported by the findings of Bhagat & Bolton (2019), which also indicates the significant relationship between managerial ownership and financial performance.

Hypothesis 2 'Institutional ownership significantly impacts financial performance in textile sector of Pakistan' has been rejected in correlation and regression analysis. Findings of the present research through correlation and regression analysis have proved that institutional ownership is insignificantly related with financial performance in textile sector of Pakistan. Insignificant relationship between institutional ownership and financial performance is supported by the findings of Abdallah & Ismail (2017), which also indicates the insignificant relationship between institutional ownership and financial performance.

Hypothesis 3 ‘Board structure significantly impacts financial performance in textile sector of Pakistan’ has been accepted in correlation and regression analysis. Findings of the present research through correlation and regression analysis have proved that board structure is significantly related with financial performance in textile sector of Pakistan. Significant relationship between board structure and financial performance is supported by the findings of Bocean & Barbu (2007), which also indicates the significant relationship between board structure and financial performance.

Hypothesis 4 ‘Non-executive directors significantly impacts financial performance in textile sector of Pakistan’ has been rejected in correlation and regression analysis. Findings of the present research through correlation and regression analysis have proved that non-executive directors are insignificantly related with financial performance in textile sector of Pakistan. Insignificant relationship between non-executive directors and financial performance is supported by the findings of Almoneef & Samontaray (2019), which also indicates the insignificant relationship between non-executive directors and financial performance.

Hypothesis 5 ‘CEO duality significantly impacts financial performance in textile sector of Pakistan’ has been rejected in correlation and regression analysis. Findings of the present research through correlation and regression analysis have proved that CEO duality is insignificantly related with financial performance in textile sector of Pakistan. Insignificant relationship between CEO duality and financial performance is supported by the findings of Arif (2019), which also indicates the insignificant relationship between CEO duality and financial performance.

Hypothesis 6 ‘Ownership concentration significantly impacts financial performance in textile sector of Pakistan’ has been accepted in correlation and regression analysis. Findings of the present research through correlation and regression analysis have proved that ownership concentration is significantly related with financial performance in textile sector of Pakistan. Significant relationship between ownership concentration and financial performance is supported by the findings of Almoneef & Samontaray (2019), which also indicates the significant relationship between ownership concentration and financial performance.

5.2 Conclusion

The prime objective of this study is to analyze the linkage between corporate governance and financial performance in textile sector of Pakistan. This study used secondary sources of data (official annual financial statements of Pakistani textile firms) for conducting this research in order to identify the significant relationship between variables of this study. Data regarding aspects of corporate governance and financial performance for the last ten years (from the period of 2011 – 2020) is collected for assessing the relationship between corporate governance and financial performance. Strata software is used based on statistical tests (correlation and regression) for proceeding data analysis and identifying the extent and direction of relationship between managerial ownership structure, institutional ownership, board structure, non-executive directors, CEO duality and ownership concentration (independent variables) and financial performance (dependent variable) in textile sector of Pakistan.

Corporate governance practices are empirically tested with financial performance based on the data of last 10 years (2011 – 2020) and found correlation between them. With regards to the findings of correlation analysis, there exist a relationship between corporate governance practices and financial performance. Furthermore, regression analysis has revealed a significant relationship between managerial ownership structure, board structure and ownership concentration (independent variables) and financial performance (dependent variable) of textile firms in Pakistan. In addition, regression analysis has also revealed an insignificant relationship between institutional ownership, non-executive directors, and CEO duality (independent variables) and financial performance (dependent variable) of textile firms in Pakistan. Based on the findings and results, it is concluded that change in corporate governance (managerial ownership structure, board structure and ownership concentration) brings a definite change in financial performance (return on assets) of textile firms in Pakistan.

5.3 Research Limitations

A limitation is a roadblock that a researcher encounters while carrying out the research investigation. In other words, the review's limitations always put a roadblock in the way of the findings of the study. Very few restrictions, such as a short time period and a small sample size, affect the researcher's ability to analyze the link between corporate governance and financial

performance in this study. The study's time constraints are undoubtedly a substantial challenge. Regarding the period allotted for completing this research study, additional time is needed to compile the data and conduct a thorough analysis of the significant correlation between corporate governance practices and financial performance in Pakistan's textile industry. As more time is required to finish this research than is now available, the time period available for doing this investigation is extremely constrained. Future research on this subject should involve more historical data from before 2011 in order to conduct in-depth studies and better understand the connection between corporate governance and financial performance in Pakistan. Owing to time constraints, a larger time frame must be given to the researcher in order to collect data from years prior to 2011, which are not included in this study. This study's lack of a mediating or moderating variable is another flaw. In order to have a more accurate and in-depth analysis of the link between corporate governance practices (independent variables) and financial performance (dependent variable) in the textile industry of Pakistan, mediating or moderating variables will be used.

5.4 Recommendations & Future Research

The majority of the factors are taken into account in this research study, yet a few small adjustments might be done to make it more highly dependable and efficient. Minor adjustments to this study's time range, sample, research variables, etc. might be done in the future. Future extensions of the time limit are possible. A suitable time range might assist the researcher in gathering historical data from years before to 2011. A longer time horizon could provide the researcher the chance to be motivated and start gathering data in 2000 so they can conduct a more thorough analysis of the link between corporate governance and financial performance in Pakistan. Increased usage of historical data might enhance the validity and dependability of the overall study project. The correlation between corporate governance and financial performance in Pakistan's textile industry has been clearly shown through findings and outcomes. Most of the parts of the subject are already addressed in this study since data show that various corporate governance practices significantly affect the financial performance of Pakistani textile manufacturers. Any mediating or moderating variable that is absent from this study might be included in subsequent research to enhance it. Researchers may find it helpful to have in-depth investigations to investigate more about this literature subject if they include a moderating or

mediating variable. In order to conduct a thorough investigation and gain a thorough understanding of the magnitude and direction of the influence that corporate governance practices have on the financial performance of textile firms in Pakistan, researchers may add additional corporate governance practices (such as board gender diversity) in the future. The results of this study will help scholars who are interested in exploring the relationship between corporate governance and financial performance in Pakistan.

5.5 Research Implications

This study will be useful to economists, research students, business analysts, and other economic players in Pakistan. It will help raise their awareness of the impact corporate governance practices have on the financial performance of Pakistani textile companies. The regulatory authorities in Pakistan would find this study to be a huge help in understanding the influential relationship between corporate governance and financial performance. Finance students will be able to determine the strength and direction of each corporate governance practices impact on the financial performance of Pakistani textile manufacturers through this study. Additionally, the results of the current study will aid companies throughout the nation in determining the extent to which corporate governance practices affect financial performance. This study will contribute to the understanding of how corporate governance may significantly improve performance of businesses by business companies and investors (local and international). This study will also be useful to finance students, research students, trade analysts, market researchers, and economists since it will help them improve their knowledge and comprehension of the important connections between the study’s components.

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