

**IMPACT OF FIRM CHARACTERISTICS ON TRANSPARENCY & DISCLOSURE:
EVIDENCE FROM FINANCIAL SECTOR OF PAKISTAN**

By

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*I, **Rashid Zaman** M.Phil student in the Department of Management Sciences, Bahria University, Islamabad, certify that the research work presented in this thesis is to the best of my knowledge my own. All sources used and any help received in the preparation of this dissertation have been acknowledged. I hereby declare that I have not submitted this material, either in whole or in part, for any other degree at this or other institution.*

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Dedication

This thesis is dedicated to my respected teacher Dr. Muhammad Ayub Siddiqui

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EXECUTIVE SUMMARY

Transparency and disclosure plays significant role in improving corporate governance. Governance in the perspective of transparency and disclosure protects shareholders rights through timely disclosure of information of corporate activities. Considerable amount of research has deliberated separation of ownership and control in order to mitigate agency problem. The issue of corporate governance is apparently new in the corporate infrastructure of Pakistan. Nevertheless other economies have taken up corporate governance as serious issue. The present study is an attempt to understand the relationship of firm characteristics such as firm size, leverage, liquidity, profitability, board composition and audit committee composition in the frame of transparency and disclosure as indicator of governance. Contribution of present study can be counted in terms of construction of transparency and disclosure index using standard and Poor's transparency and disclosure scoring system at three levels such as ownership structure and exercise of shareholder rights, financial transparency and information disclosure and board & management structure process disclosure. In the pursuit of construction of the transparency and disclosure index, annual reports for the sample of 99 firms from financial sector of Pakistan over the period of six years (2007-2012) are used. Panel data models fixed and random effect model followed by Hausman test have been employed.

Finding of the study after application of diagnostic statistical criteria reveals that firm size, financial leverage and audit committee composition have significant positive causal relationship with overall transparency and disclosure score, while liquidity and the board composition have negative but significant causal relationship with transparency and disclosure.

The accounting base measure ROA and ROE showing insignificant relationship in context of Pakistani financial sector.

Chapter 1: Introduction

This chapter briefly describes and introduces causal relationship between firm characteristics such as size, leverage, profitability, liquidity, board composition and audit committee composition and transparency and disclosure of financial sector of Pakistan. Background of present study, its context, problem statement, and research objectives and research questions have been discussed in this chapter. Furthermore, brief methodology and model of the study is described to statistically test the causal relationship between firm characteristics and level of transparency and disclosure. This chapter also provides the detail significance of the study and scheme of the study is also documented in the last section of this chapter.

1.1 Background

Corporate governance when broadly defined refers to the private and public institutions, including laws, regulations and accepted business practices that together govern the relationship in market economy, between corporate managers (corporate insiders) on one hand and those who invest resources in corporations on other hand. Investors can include suppliers of equity finance (shareholders), suppliers of debit finance (creditors), supplier of relatively firm specific human capital (employees) and suppliers of other tangible and intangible assets that corporation may use to operate and grow (Charles, 2003). According to OEDC,(2004) corporate governance is the