

**Determinants of Corporate Board Monitoring and Audit Committee Diligence: A Study of
KSE- listed Firms of Pakistan.**

By

Muhammad Naveed

A thesis presented to Bahria University, Islamabad in partial fulfillment of the requirements
for the degree of Master of Philosophy



February 2014

SUBMISSION FORM OF THESIS FOR HIGHER RESEARCH DEGREE

BAHRIA UNIVERSITY, ISLAMABAD

Candidate Name: Muhammad Naveed. I submitted 3 copies of thesis for examination for the degree of MPhil, Thesis titled as:

**Determinants of Corporate Board Monitoring and Audit Committee Diligence: A Study of
KSE listed Firms of Pakistan.**

Candidate Signature: _____ Date: _____

Certificate of Principal Supervisor

I **Dr. Mehboob Ahmed** being the principal Supervisor for the above student, certify that thesis is in a form suitable for examination and that the candidate has pursued his course in accordance with the Rules of the University.

Signature: _____ Date: _____

Recommendation for Examination

I recommend that the thesis be examined.

Principal Supervisor: _____ Date: _____

Not Recommended for Examination

I recommend that the thesis be examined.

Principal Supervisor: _____ Date: _____

Co-Supervisor: _____ Date: _____

Statement by the Head Faculty/Department

I support the submission of the thesis of the above named student for examination under the University Rules for higher degrees.

Signature: _____ Date: _____

BAHRIA UNIVERSITY, ISLAMABAD

APPROVAL SHEET**SUBMISSION OF HIGHER RESEARCH DEGREE THESIS**

Candidate's Name: **Muhammad Naveed**
Discipline: **Management Sciences (Finance)**
Faculty/Department: **Department of Management Sciences (GS)**

I hereby certify that the above candidate's work, including the thesis, has been completed to my satisfaction and that the thesis is in a format and of an editorial standard recognized by the faculty/department as appropriate for examination.

Signature(s):

Principal Supervisor: Prof Dr. Mehboob Ahmed

Date: February, 2014

The undersigned certify that:

1. The candidate presented at a pre-completion seminar, an overview and synthesis of major findings of the thesis, and that the research is of a standard and extent appropriate for submission as a thesis.
2. I have checked the candidate's thesis and its scope, format; editorial standards are recognized by the faculty/department as appropriate.

Signature(s):

Dean/Head of Faculty/Department:

Date: _____

Copyright ©2014 by Muhammad Naveed

All rights reserved

DECLARATION OF AUTHENTICATION

I, Muhammad Naveed, 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 any other institution.

Signature: _____

Name: _____

ACKNOWLEDGMENT

First of all glory and gratitude to all mighty ALLAH for bestowing me wisdom and astuteness to complete this empirical journey. It would not have been possible to write this dissertation without the help and support of kind people around me. Foremost, I would like to express my sincere gratitude to my thesis supervisor, Professor Dr. Mehboob Ahmad for his patience, motivation, enthusiasm and immense knowledge. His sage advice, insightful criticisms, and patient encouragement aided the writing of this thesis in innumerable ways. My sincere thanks also goes to Dr. Muhammad Ayub Siddiqui whose resolute support in data analysis and potentiate guidance made me able to fulfill this task effectively. His enrich superior knowledge was greatly needed and deeply appreciated. And last but not least, thanks to my beloved father for his consistent support and encouragement to peruse this level of excellence. All the support he has provided me over the year was the greatest gift anyone has ever given me.

Dedication

This Dissertation is dedicated to my beloved father and mentors for their unconditional love, encouragement and support which always motivate me to set higher targets.

Table of Contents

SUBMISSION FORM OF THESIS FOR HIGHER RESEARCH DEGREE BAHRIA UNIVERSITY, ISLAMABAD	ii
APPROVAL SHEET	iii
DECLARATION OF AUTHENTICATION.....	v
ABSTRACT.....	1
CHAPTERS	
1: INTRODUCTION	3
1.1 Background of the Study.....	3
1.2 Contextual Setting of the Study.....	5
1.3 Problem Statement.....	7
1.4 Research Objectives and Research Questions.	8
1.5 Significance/Rationale of the study	8
1.6 Structure of the Thesis	9
2: LITERATURE REVIEW	11
2.1 Agency Theory and Board Monitoring	17
2.3 Corporate Governance in Pakistan	21
2.4 Corporate Legal Framework of Pakistan	26
2.5 Corporate Board and Monitoring.....	32
2.5.1 Independent Directors and Monitoring and Diligence.	36
2.5.2 Size of the Corporate Board and Monitoring.....	38
2.5.3 CEO Duality and Monitoring	40
2.6 Determinants of Ownership Structure, Board Monitoring and Audit Committee Diligence	41
2.6.1 Concentrated Ownership	42
2.6.2 Insider ownership.....	43
2.6.3 Block Holder Ownership.....	43
2.7 Audit Committee and Diligence	45
2.8 Control Variables	47
2.9 Critical Analysis.....	48
3: THEORETICAL FRAMEWORK.....	52

3.1: Theoretical Framework	55
3.2 Research Hypothesis Development	55
4: METHODOLOGY	60
4.1: Research Design	60
4.2: Unit of Analysis.....	60
4.3: Source of Data.	60
4.4: Population and Sampling	60
4.5: Econometrics Techniques	61
4.6: Justification of the Data Analysis Technique.	61
4.7: Variables Specification.	62
5: RESULTS AND DISCUSSION.....	65
5.1: Fixed Effect Model (EGLS) results of Board Meeting Frequency.....	65
5.2: Fixed Effect Model (EGLS) results of Board Meeting Frequency in the presence of Leverage.....	67
5.3: Fixed Effect Model (EGLS) results of Board Meeting Frequency in the presence of Firm age.	69
5.4: Fixed Effect Model (EGLS) results of Board Meeting Frequency In the presence of small size firm.	71
5.5: Fixed Effect Model (EGLS) results of Board Meeting Frequency in the presence of Medium Size Firm.	72
5.6: Fixed Effect Model (EGLS) results of Board Meeting Frequency in the presence of Large Size Firm.	74
5.7: Hausman Specification Test for consistent Econometric model	75
5.8: Fixed Effect Model (EGLS) results of Audit Meeting Frequency	77
5.9: Fixed Effect Model (EGLS) results of Audit Meeting Frequency in the presence of Leverage.	78
5.10: Fixed Effect Model (EGLS) results of Audit Meeting Frequency in the presence of Firm Age...	80
5.11: Fixed Effect Model (EGLS) results of Audit Meeting Frequency in the presence of Small firm size.....	81
5.12: Fixed Effect Model (EGLS) results of Audit Meeting Frequency in the presence of Medium firm size.....	83
5.13: Fixed Effect Model (EGLS) results of Audit Meeting Frequency in the presence of large firm size.....	85
5.14: Correlated Random Effects – Hausman Specification Test for consistent Econometric model....	87
5.15: Comparative Statistics about the effect of firm size on level of board monitoring	89
5.16: Comparative Statistics about the effect of firm size on level of Audit Committee Diligence.....	90

5.17: Discussion on Results	91
6: CONCLUSION AND RECOMMENDATION.....	104
6.1 Limitations of the Study.....	106
6.2 Future Direction & Recommendations	107
REFERENCES.....	108
APPENDIXES	114
A. Random Effect Model (EGLS) results of Board Meeting Frequency.....	114
B. Random Effect Model (EGLS) results of Audit Meeting Frequency.....	115
C. Hausman Specification Test	116

ABSTRACT

The purpose of the study was to investigate and empirically determine the determinants of corporate board and audit committee meeting frequency in Pakistani listed companies. The explanatory variable of the study has incorporated as the corporate board characteristics and dimensions of ownership structure. Dimension of corporate board are incorporated as, proportion of independent director, CEO duality and board size. While the ownership structure is incorporated as, concentrated ownership, insider ownership and outsider block holding. The dependent variable of the current study are incorporated as corporate board and audit meeting frequency i.e. the number of board and audit meetings in a financial year.

The study also incorporates control variables as, the firm size, leverage and age listing. The determinants were related to the ownership structure and to the board characteristics. The study was conducted in an agency setting featured by high ownership concentration and large insider shareholders. Hypotheses were developed based on agency theory. The empirical evidence was provided by a sample of nonfinancial companies listed at Karachi stock exchange. Convenient sampling by employing secondary source data ranging from 2007 to 2012 was collected for empirical data analysis. Estimated generalized least square regression is used in panel data model to test the relationship. Robustness checks through Hausman specification test provide further empirical support.

Based on 500 year firm observations, the study found that CEO duality and block holding ownership negatively impact- either on the corporate board or on the audit committee meeting frequency. Whilst the board size and proportion of independent directors in the board has a positive impact. The findings of the study are consistent with the hypothesis that insider

and concentrated ownership are substitute control mechanisms. The findings also suggest that board and audit meeting are more frequent in large firms as compared to small and medium size firms.

This is the first most empirical investigation providing the empirical evidence on the determinants of corporate board and audit committee meeting frequency in a contextual setting featured by nonfinancial sector of Pakistan. The study provides an agency theory-based examination of the board and audit committee meeting frequency, in a setting featured by concentrated and insider ownership.