

**“Impact of corporate Governance on Firm’s Performance:
A comparative study of firm’s performance & financial crisis”**



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DEDICATION

This thesis is dedicated to my beloved family, especially my parents.

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ABSTRACT

Impact of corporate Governance on Firm's Performance: a comparative study of firm's performance & financial crisis

Effective corporate governance has a significant importance for any country as it directly influences the economic development. To design and implement an effective corporate governance system is very crucial for an effective decision making. The study analyses the empirical association between firm's performance and corporate governance in the developing capital market of Pakistan. The measures for the firm's performance include the profitability of the firm and its value. Tobin's, Returns on assets (ROA) and returns on equity (ROE) are used as the measure of firm's financial performance. Three indices are prepared on the basis of multifactor corporate governance rating by incorporating 21 different factors to investigate this relationship. To measure the impact of macroeconomic events, GDP and Inflation rate are also added in the study. The sample consists of twenty six non-financial and twenty financial firms listed at Karachi Stock Exchange from the year 2003 to 2013. The research is going to explain how corporate governance is measured in terms of different mechanisms opted by the firms and the impact they make on the overall corporate profitability. A separate analysis is performed for both the sectors keeping in consideration the different capital structures and nature of business. Generalized Moment of Method (GMM) is used as the estimation technique to tackle the problem of endogeneity. A significant direct relationship among the firm's profitability and variables of corporate governance is indicated by the results. Macroeconomic variables also have a positive influence on firm's value and profitability. The research will help to resolve the debate on "stakeholders' vs. shareholders" by providing the best mix of strategies that can be applied to serve the interests of stakeholders and shareholders simultaneously.

Keywords: Corporate governance, Macroeconomic variables, firm's performance.

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LIST OF ABBREVIATIONS

BOD	Board of Directors
CEO	Chief Executive Officer
CG	Corporate Governance
CPI	Corporate Governance Index
DE	Debt to Equity
GDP	Gross Domestic Product
GMI	Governance Metrics International
GMM	Generalized Method of Moments
IFRS	International Financial Reporting Standards
IR	Inflation Rate
IRRS	Investor Responsibility Research Data
ISE	Islamabad Stock Exchange
KSE	Karachi Stock Exchange
LEV	Leverage
LSE	Lahore Stock Exchange
NYSE	New York Stock Exchange
OLS	Ordinary Least Square
OWN	Vector of Ownership Index
ROE	Return on Equity
ROA	Return on Assets
SECP	Security and Exchange Commission of Pakistan
SG	Sales Growth
UK	United Kingdom
UNDP	United Nations Development Program
USA	United States of America