

"Impact of Corporate Governance on Value of Firm"



By:

Mansoor Shahzad

01-222122-013

Supervisor:

Mr. Ajab Khan Burki

A research project submitted in partial fulfillment of
the requirement for the degree of MBA

Department of Management Sciences

Bahria University Islamabad Campus

Bahria University Islamabad

2014

Acknowledgement

All praise to Almighty Allah, the most merciful, most compassionate, He enabled me to complete this research work.

I express my gratitude to my kind supervisor Mr.Ajab Khan Burki *who* kept my morale high by his suggestions and appreciation. He was available to me whenever and for whatever I consulted him. Without his precious guidance and help I could never be able to complete my work.

I am thankful to my fellows and friends at Bahria University Islamabad for their assistance throughout the study duration. I express my gratitude to my brothers and sister for boosting my morale.

I would like to acknowledge the support of my Parents. I admit that I owe all my achievements to my truly sincere and most loving parents, who mean the most to me, and without their support and prayers I would not have been able to complete my work. Thank you for everything.

Abstract

This present study is to investigate the relationship between corporate governance and firm value in financial sector of Pakistan, the study includes sample of 50 KSE listed financial companies. For this purpose, a corporate governance index has been constructed by using three sub-indices (ownership structure disclosure, board and management structure disclosure and financial transparency disclosure). The corporate governance index of present financial sector of Pakistan has been analyzed by using the 21 attributes. The simple regression analysis was used to determine the relationship between the corporate governance index and value of firm. We use Tobin's Q as measure of firm value and used advanced econometric technique to conduct the in-depth analysis. The relationship between the variables was determined by conducting ordinary least square (OLS). The findings of this study reveal significant positive relationship between corporate governance index and firm value. It is concluded that more disclosure of information has positive impact on firm profitability. The study also found the disclosure at higher side in Pakistani firms. The study found the negative relationship between ownership structure disclosure and firm value. While the board management structures and financial information disclosure has significant positive relationship with firm profitability.

GLOSSARY

CG	Corporate Governance:
CGI	Corporate Governance Index
GDP	Gross Domestic Product:
ROI	Return on investment
SECP	Securities and Exchange Commission of Pakistan
ICAP	Institute of Chartered Accountants of Pakistan
BCO	Banking Companies ordinance
CDC	Central Depository Company
AGMs	Annual General Meetings
ADB	Asian Development Bank
CLSA	Credit Lyonnais Securities Asia
G-Index	Governance Index
FTSE	Financial Times Stock Exchange
G-Score	Governance-Score
OLS	Ordinary least squares
OECD	Organization for Economic Co-operation Development
CEO	Chief executive officer
ISSD	Institutional Shareholder Services Database
KSE	Karachi Stock Exchange
S&P	Standard and Poor
BMS	Board & management structure
CG_INDEX	Overall Corporate Governance Index
FTD	Financial Transparency or Information Disclosure
OWS	Ownership structure disclosure
F_SZ	Firm Size
RIA	Regulatory Impact Assessment

Table of Contents

Chapter 1 Introduction	1
1.1 Contents and Structure of Dissertation	7
Chapter 2 Literature Review	9
Chapter 3 Objective of Study & Research Question.....	32
Research Question.....	32
Chapter 4 Theoretical Framework.....	33
Chapter 5 Research Methodologies.....	34
5.1 Unit of Analysis.....	34
5.2 Population and Sample of Study.....	34
5.3 Collection and Analysis of Data	34
5.4 Econometric Technique.....	35
5.5 Specification of Variables	35
5.6 Model of Study	37
Chapter 6 Empirical Findings of Study	39
6.1 Introduction	39
6.2 Descriptive Statistics	39
6.3 Pearson Correlation Analysis.....	40
6.4 Ordinary Least Square Regression (OLS).....	41
Chapter 7 Conclusion and Recommendations of Research	43
7.1 Introduction	43
7.2 Conclusion.....	43
7.3 Recommendations	44
7.4 Limitations of Study.....	44
7.5 Area for Future Research	44
References	45
APPENDIX A	52
APPENDIX B Corporate Governance Index (CGI) Components	53