



GLOBAL JOURNAL OF MANAGEMENT AND BUSINESS RESEARCH
Volume 11 Issue 8 Version 1.0 August 2011
Type: Double Blind Peer Reviewed International Research Journal
Publisher: Global Journals Inc. (USA)
Print ISSN: 0975-5853

Corporate Governance and Firm Performance a Case Study of Pakistan Oil and Gas Companies Listed in Karachi Stock Exchange

By Laib A Dar, Muhammad Akram Naseem, Ramiz Ur Rehman, Dr. G. S. K. Niazi

Quaid-e-Azam University, Islamabad, Pakistan

Abstract - In this study the relationship between four Corporate Governance Mechanisms (board size, chief executive status, annual general meeting and audit committee) and two Firm Performance Measures (return on equity, ROE, and profit margin, PM), of Karachi Stock Exchange listed oil & gas firms is examined for the period 2004 - 2010. The t-test and Multiple Regression analysis are applied to examine the significance & dependency of the above mentioned variables. By using the panel methodology and OLS as a method of estimation, the results provide an evidence of a significant effect and positive relationship between ROE and board size as well as annual general meeting. But ROE has negative relationship with audit committee and CEO status and both have significant effect on it. The results further expose a positive relationship between PM, board size and annual general meeting and they have no significant effect. The study, however, could not provide a significant effect between PM and audit committee. The CEO status and audit committee have a negative relationship with PM but CEO status has a significant effect. The implication of this is that the board size should be limited to a sizeable limit and that the post of the chief executive should be occupied by different persons.

Keywords : *Corporate Governance, Corporate Governance Mechanisms, Firm Performance Measures.*

GJMBR Classification : *JEL Code: G34*



Strictly as per the compliance and regulations of:



© 2011 . Laib A Dar, Muhammad Akram Naseem, Ramiz Ur Rehman, Dr. G. S. K. Niazi .This is a research/review paper, distributed under the terms of the Creative Commons Attribution Noncommercial 3.0 Unported License (<http://creativecommons.org/licenses/by-nc/3.0/>), permitting all non commercial use, distribution, and reproduction in any medium, provided the original work is properly cited.

Corporate Governance and Firm Performance a Case Study of Pakistan Oil and Gas Companies Listed in Karachi Stock Exchange

Laib A Dar^α, Muhammad Akram Naseem^Ω, Ramiz Ur Rehman^β, Dr. G. S. K. Niazi^ψ

Abstract - In this study the relationship between four Corporate Governance Mechanisms (board size, chief executive status, annual general meeting and audit committee) and two Firm Performance Measures (return on equity, ROE, and profit margin, PM), of Karachi Stock Exchange listed oil & gas firms is examined for the period 2004 - 2010. The t-test and Multiple Regression analysis are applied to examine the significance & dependency of the above mentioned variables. By using the panel methodology and OLS as a method of estimation, the results provide an evidence of a significant effect and positive relationship between ROE and board size as well as annual general meeting. But ROE has negative relationship with audit committee and CEO status and both have significant effect on it. The results further expose a positive relationship between PM, board size and annual general meeting and they have no significant effect. The study, however, could not provide a significant effect between PM and audit committee. The CEO status and audit committee have a negative relationship with PM but CEO status has a significant effect. The implication of this is that the board size should be limited to a sizeable limit and that the post of the chief executive should be occupied by different persons.

Keywords : Corporate Governance, Corporate Governance Mechanisms, Firm Performance Measures.

I. INTRODUCTION

Corporate governance is the set of processes, customs, policies, laws, and institutions affecting the way company is directed, administered or controlled. Corporate governance also includes the relationships among the many stakeholders involved and the goals for which the corporation is governed. In contemporary business corporations, the main external stakeholder groups are shareholders, debt holders, trade creditors, suppliers, customers and communities affected by the corporations activities. Internal stakeholders are the board of directors, executives, and other employees.

The term “corporate governance” came into popular use in the 1980's to broadly describe the general principles by which the business and management of companies were directed and controlled. Although its usage is now common, and the objectives to be achieved thereby generally understood, there is no universally accepted definition of “corporate governance”. Although the utility of definitions is invariably exaggerated, definitions do have the advantage of providing a general framework for discussion and debate. For this purpose, and in view of the comparative infancy of the subject in Pakistan, a limited discussion of the definition of corporate governance is provided below.

A basic definition of corporate governance, which has been widely recognized, was given in a report by the committee under the chairmanship of Sir Adrian Cadbury titled (the Cadbury Report): This definition of corporate governance has been endorsed in various other discourses on the subject, including the 1998 final report of the Committee on The Financial Aspects of Corporate Governance.

“Corporate governance is the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies. The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place. The responsibilities of the directors include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship. The Board's actions are subjected to laws, regulations and the shareholders in general meeting.”

The Cadbury Committee report defines it as “the system by which companies are directed and controlled”. A corporate governance system is comprised of a wide range of practices and institutions, from accounting standards and laws concerning financial disclosure, to executive compensation, to size and composition of corporate boards. A corporate governance system defines who owns the firm, and dictates the rules by which economic returns are

Author^α: M.Phil Scholar, E-mail : laiba_dar11@hotmail.com .

Author^Ω: Lecturer, E-mail : Iqra4ever@gmail.com.

Author^β: Assistant Professor, The University of Lahore, Lahore Business School, Pakistan. E-mail : Ramiz_rehman@hotmail.com .

Author^ψ: Assistant Professor, Quaid-e- Azam University, Islamabad, Pakistan. Email: Gskniazi@yahoo.com.

distributed among shareholders, employees, managers, and other stakeholders. As such, a country's corporate governance regime has deep implications for firm organization, employment systems, trading relationships, and capital markets. Thus, changes in Pakistani system of corporate governance are likely to have important consequences for the structure and conduct of country business

Sound corporate governance practices help companies to improve their performance and attract investment while enabling them to realize their corporate objectives, protect shareholder rights, meet legal requirements, and demonstrate to a wider public how they are conducting their business. These practices have become critical to worldwide efforts to stabilize and strengthen global capital markets and protect investors. Good corporate governance contributes to sustainable economic development by enhancing the performance of companies and increasing their access to outside capital. In emerging markets good corporate governance serves a number of public policy objectives. It reduces vulnerability of the financial crises, reinforcement property rights; reduces transaction cost and cost of capital and leads to capital market development. Corporate governance concerns the relationship among the management, board of directors, controlling shareholders, minority shareholders and other stakeholders. In Pakistan, the publication of the SECP Corporate Governance Code 2002 for publicly listed companies has made it an important area of research of corporate sector.

The positive effect of good corporate governance on different stakeholders ultimately is a strengthened economy, and hence good corporate governance is a tool for socio-economic development. After East Asian Economies collapsed in the late 20th century, the World Bank's President warned those countries, that for sustainable development, corporate governance has to be good. Economic health of a nation depends substantially on how sound and ethical businesses are.

Corporate governance serves two indispensable purposes.

- ❖ It enhances the performance of corporations by establishing and maintaining a corporate culture that motivates directors, managers and entrepreneurs to maximize the company's operational efficiency thereby ensuring returns on investment and long term productivity growth.
- ❖ Moreover, it ensures the conformance of corporations to laws, rules and practices, which provide mechanisms to monitor directors' and managers' behavior through corporate accountability that in turn safeguards the investor interest. It is fundamental that managers exercise their discretion with due diligence and in the best

interest of the company and the shareholders. This can be better achieved through independent monitoring of management, transparency as to corporate performance, ownership and control, and participation in certain fundamental decisions by shareholders.

II. SOME FAILURE IN PAKISTAN DUE TO LACK OF CORPORATE GOVERNANCE

a) PTCL

The privatization of PTCL was also a big corporate scandal. An ex-Senior Vice President has claimed the privatization as Pakistan's Biggest Financial fraud. PTCL former official further commented that the deal was closed on 2.6 billion dollars including U-fone & Paktel, however only U-fone had enterprise value of more than 6 billion dollars which does not include assets of U-fone. Moreover, pricing decisions were made through old records instead of determining current market value, which means, it was like Buy One Get 2 Free offer. It has been reported further that in September 2006, when Etisalat had refused to honor the deal, they were offered a secret price discount of 394 million dollars along with commitment to lay off 20,000 employees and to bear the 50% cost of layout. Supreme Court of Pakistan has already given decision against the privatization of PSO and Pakistan Steel and if PTCL's privatization gets challenged on true facts, it will bring horrifying results.

b) Crescent Bank Fraud

The entire board of directors and CEO Anjum Salaam of Crescent Standard investment bank were legally stopped from running their offices on evidences of suspected fraud and irregular accounting. External Auditors had predicted a missing amount of over Rs.6 Billion, apart from illegal maintenance of parallel accounts, concealment of bank assets, un-authorized massive funding of group companies, unlawful investments in real estate and stock market, etc. the SECP took legal action against the companies officers, although much of the actions taken were criticized as insufficient.

c) ENGRO Group of Companies

SECP was at the receiving end of immense criticism once it had allowed Fertilizer giant ENGRO to establish its subsidiary ENGRO Foods. Critics believed that the company was associated with the urea business and were tremendously concerned about the extent to which hygiene requirements for the industry would be met by ENGRO foods. However SECP counter argument was based on the fact that ENGRO has had a rich history of sound corporate governance which satisfied SECP that ENGRO will be responsible in regards to hygiene issues associated with ENGRO foods. Time proved that Engro's corporate governance was in good practice and has led to the success of

ENGRO foods with products such as Olpers Milk.

d) *Taj Company*

The Taj Company was involved in poor corporate governance practices. The company was running a scheme through which it was able to receive huge amounts of deposits illegally. What was far more disappointing was the religious affiliation the company had attached with its name. Even 15 years after their fraudulent practices have been stopped; the company still owes heavy liabilities to over 25000 people.

e) *Mehran Bank*

The National Accountability Bureau (NAB) has recovered Rs1.6 billion in the famous Mehran Bank scandal case by selling Benami property of defunct banks chief Younus Habib in Islamabad. The amount is stated to be the country's biggest-ever single cash recovery in a willful loan default case. In addition, the Younus Habib Group will also pay Rs420 million. According to the NAB, Younus Habib, former chief operating officer of the defunct bank, had offered to settle his liability through the sale of his Benami property and accordingly entered into a settlement agreement of Rs1.6 billion with the National Bank of Pakistan. The Mehran Bank had been doing badly since its very beginning in January 1992, and banking experts attributed this poor performance to Younus Habib's penchant for 'extra-curricular banking activities

The main focus on this study is to examine the relationship between corporate governance and firm performance of listed Karachi Stock Exchange (KSE) oil and gas firms. In the firm level corporate governance characteristic we have considered Board Size, CEO status, Annual General Meeting and Audit Committee. And we have used indicators Return on Equity and Profit Margin for Firm Performance.

The plan of the study is as follows. Section 2 briefly reviews the corporate governance policy framework of Pakistan. The review of empirical findings of previous research is presented in Section 3. The methodology of this study is provided in Section 4. Section 5 explores the relationship between corporate governance and performance and provides a description of the data. Section 6 presents the results for the relationship between corporate governance and firm performance and last section concludes.

III. LITERATURE REVIEW

a) *Corporate Governance in Pakistan*

The SEC, since it took over the responsibilities and powers of the Corporate Law Authority in 1999, has been acutely alive to the changes taking place in the international business environment, which directly: and indirectly impact local businesses. As part of its multi-dimensional strategy to enable Pakistan's corporate sector meet the challenges raised by the changing

global business scenario and to build capacity, the SEC has focused, in part, on encouraging businesses to adopt good corporate governance practices. This is expected to provide transparency and accountability in the corporate sector and to safeguard the interests of stakeholders, including protection of minority shareholders' rights and strict audit compliance.

During the past few years, the financial and corporate world has witnessed significant changes. Following the Asian financial crisis, recent accounting scandals have brought to light the importance of an effective institutional framework that would help corporate management increase shareholder value while protecting the interests of other stakeholders.

In March 2002, the Securities and Exchange Commission of Pakistan issued the Code of Corporate Governance to establish a framework for good governance of companies listed on Pakistan's Stock Exchanges. In exercise of its powers under Section 34(4) of the Securities and Exchange Ordinance, 1969, the SEC issued directions to the Karachi, Lahore and Islamabad Stock Exchanges to incorporate the provisions of the Code in their respective listing regulations. As a result, the listing regulations were suitably modified by the stock exchanges.

To achieve this goal, the Securities and Exchange Commission (SEC) of Pakistan in partnership with the United Nations Development Programme (UNDP) and the Economic Affairs Division of the Government of Pakistan, launched the SEC-UNDP Project on Corporate Governance in August 2002. Under the purview of the Project, UNDP has provided technical and financial assistance to the SEC for developing and implementing good corporate governance practices and establishing a sound regulatory framework for the corporate sector in the country. The work involves implementation of the Code of Corporate Governance, issued by the SEC in March 2002, creating stakeholder awareness, capacity-building and networking with other emerging markets. Shahnawaz Mahmood of the SEC of Pakistan is working as research officer on the UNDP Project on Corporate Governance.

The Code is a compilation of "best practices", designed to provide a framework by which companies listed on Pakistan's stock exchanges are to be directed and controlled with the objective of safeguarding the interests of stakeholders and promoting market confidence; in other words to enhance the performance and ensure conformance of companies. In doing this, the Code draws upon the experience of other countries in structuring corporate governance models, in particular the experience of those countries with a common law tradition similar to Pakistan.

Corporate entities in Pakistan are primarily regulated by the SEC under the Companies Ordinance,

the Securities and Exchange Ordinance, 1969, the Securities and Exchange Commission of Pakistan Act, 1997, and the various rules and regulations made there under. In addition, special companies may also be regulated under special laws and by other regulators, in addition to the SEC. In this way, listed companies are also regulated by the stock exchange at which they are listed; banking companies are also regulated by the State Bank of Pakistan; companies engaged in the generation, transmission or distribution of electric power are also regulated by the National Electric Power Regulatory Authority; companies engaged in providing telecommunication services are also regulated by the Pakistan Telecommunication Authority; and oil and gas companies are also regulated by the Oil and Gas Regulatory Authority.

So the parties involved in corporate Governance are

- ❖ Board Of Directors
- ❖ Shareholders
- ❖ Audit Committee
- ❖ Chief Executive Officer & Management

The Role of BOD

The board of directors has the responsibility to ensure that corporate behavior conforms to best governance practices. This requires directors to exhibit certain behavioral norms, including: (a) informed and deliberative decision-making; (b) division of authority (c) effective monitoring of management; and (d) evenhanded performance of duties owed to the company and to shareholders as a Class.

BOD's responsibilities inherently demand

- ✓ The exercise of judgment.
- ✓ Guiding business strategy,
- ✓ Determine an appropriate corporate appetite for risk
- ✓ Selecting a chief executive from a pool of candidates involves decision-making that cannot be reduced to a mechanical series of steps.
- ✓ Monitoring and supervisory functions may comprise a range of reasonable approaches.
- ✓ Ensure the integrity of accounting and financial reporting systems and oversee the process of disclosure and communications

The Role of Shareholders

Some of the important roles of the share holders are listed below:

- ✓ Shareholders nominate a Board of Directors to manage the affairs of the corporation
- ✓ Shareholders make a financial investment in the corporation, which entitles those with voting shares to elect and remove the directors and auditors.
- ✓ Shareholders should have effective communication with the board to understand the business, risk profile, financial condition and the operating

performance of the firm.

- ✓ Opportunity should be given to shareholders to ask questions about the direction of the firm and especially on the remuneration policy of key executive members and board members, this should be linked to performance.
- ✓ Shareholders holding at least 20% of the issued capital of a firm should, as far as possible have a representative on the board, except they are disqualified by the virtue of their being competing business with the firm or they have other conflicts of interest.
- ✓ There should be at least one director on the board representing the minority shareholders.

The Role of Committee

The audit committee ("committee") shall assist the board of directors (the "board") in the oversight of (1) The integrity of the financial statements of the company (2) The effectiveness of the internal control over financial reporting (3) The independent registered public accounting firm's qualifications and independence (4) The performance of the company's internal audit function and independent registered public accounting firms and (5) The company's compliance with legal and regulatory requirements

The role of the audit committee, as a central facet in the execution of first-rate corporate governance, is continually evolving. From time to time, the audit committee may be called upon to address specific issues that fall outside of its primary role.

The audit committee's main roles are elaborated in the Code principles, which can be summarized as:

- ✓ To monitor the integrity of the company's financial statements and announcements;
- ✓ To review internal financial controls and (unless there is a separate risk committee) risk management systems;
- ✓ To monitor and review the internal audit function;
- ✓ To recommend the appointment or replacement of external auditors and to review the effectiveness of their work.
- ✓ To develop and implement policy on the use of the auditors for no audit services.
- ✓ The primary duties and responsibilities of the Committee include, amongst others,
- ✓ The review of the external auditors' audit plan, the internal auditing process, accounting standards and practices
- ✓ Financial information, system of accounting systems, internal controls and the reliability of information, financial risk management, any certifications required by regulatory authorities.
- ✓ Review of quarterly and annual financial statements and reports and budgets prior to approval by the board.

- ✓ The committee is responsible for ensuring the independence of the external auditors. The Committee must maintain a direct relationship with the board, the management as well as with the shareholders.
- ✓ External and internal auditors. The external and internal auditors must report directly to the Committee.

The Role of CEO & Management

The main role of CEO and Management are:

- ✓ Operating the firm in an effective and ethical manner.
- ✓ Preparing the strategic plans and annual operating plans and budgets for the board's approval.
- ✓ The integrity of the firm's financial reporting system that fairly presents its financial position.
- ✓ The financial reports are expected to comply with relevant statutory and professional pronouncements.
- ✓ Establishing an effective system of internal controls to give reasonable assurance that the firm's books and records are accurate, its assets safeguarded and applicable laws complied with.
- ✓ Approving the Audit Committee Charter; Endorsing the internal audit work program;
- ✓ Reviewing internal audit reports submitted;
- ✓ Requesting audits be conducted as may assist senior or other management in discharge of their responsibilities.

IV. CORPORATE GOVERNANCE MECHANISMS

For measuring corporate governance and Firm performance different variables are used by the researchers such as Board Size, Audit Committee, Annual General Meeting and the Status of CEO.

a) Board Size

It is expected that limiting board size is to improve firm performance because the benefits by larger board of directors increased monitoring are outweighed by the poorer communication and decision-making of larger groups [Lipton and Lorsch (1992); Jensen (1993)]. Brown and Caylor (2004) add to this literature by showing that firms with board sizes between 6 and 15 have higher returns on equity and higher net profit margins than do firms with other board sizes. When board size increases, agency problems in the boardroom increase simultaneously, therefore leading to more director free-riding problems and internal conflicts among directors. What's more, a large board is more likely to be controlled by the CEO rather than the board controlling management. Eisenberg et al. (1998) maintain that when board size increases, coordination and communication problems increase. This causes greater agency problems and costs.

b) Annual General Meeting

The Annual General Meeting (AGM) is the most important and most powerful body of our organization. The AGM is the ultimate decision maker. The AGM gives the organization direction in policy when dealing with the goals.

The AGM appears to have emerged as an accountability mechanism in early English local government and joint stock companies (Cordery, 2005) and, although prevalent in Western Society, there is a paucity of research on its effectiveness, if this is the primary rationale for the existence of perpetuation of AGMs. Extant research has considered shareholder activism in AGMs (e.g. Marens, 2002; Marinetto, 1998) and whether this activism is empirically successful (Karpoff, Malatesta, & Walkling, 1996). From another aspect, Strätling (2003) investigated the United Kingdom Department of Trade and Industry 1999 proposals for AGM reform to which respondents reacted negatively. Typically an AGM includes: the members electing the controlling committee, that committee presenting financial accounts and reflecting on the organization's successes. The controlling actors may report achievement against key performance indicators in both financial and nonfinancial terms (Pitchforth, 1994), thus fulfilling accountability demands. Roberts and Scapens suggested accountability "will be open to further negotiation and refinement in the actual course of interaction" (1985, p.450), and acknowledged that the place and manner in which the information is provided also impacts on accountability. As the AGM is an occasion for face-to-face accountability, members can question and challenge the controlling actors' reports, providing refinement and insight within the accountability process. Accordingly, this research assesses the potential for AGMs for effective scrutiny and the discharge of accountability, through a qualitative method employing observation and analysis of the process of accountability between members and actors at AGMs. The main function of the AGM is to receive and to react to reports on activities of the Board of Directors, the Executive, and the Auditor. This is where the democratic process of the Company is really shown. The membership has the opportunity or elect who they want to represent.

c) Audit Committee

Audit committees serve as a bridge in the communication network between internal and external auditors and the board of directors, and their activities include review of nominated auditors, overall scope of the audit, results of the audit, internal financial controls and financial information for publication (FCCG, 1999). Indeed, the existence of an audit committee in a company would provide a critical oversight of the company's financial reporting and auditing processes (FCCG, 1999; Walker, 2004).

Klein (2002) reports a negative correlation between earnings management and audit committee independence. Anderson, Mansi and Reeb (2004) find that entirely independent audit committees have lower debt financing costs.

c) CEO Status

A widely debated corporate governance issue is whether the two most important positions in a company the Chairman of the Board and the CEO— should be held by two different individuals (a dual leadership structure) or one person may be assigned both portfolios (a unitary leadership structure).

Many studies addressed the CEO duality-performance relationship; with inconsistent results (Brian K. Boyd 1994). There is only weak evidence that duality status affects long-term performance, after controlling the other factors that might impact the performance. (B. Ram Baliga et al. 1995). Berg et al (1978) and Brickley et al (1997) concluded that there is a chance of agency cost when CEO performs dual role. Therefore, the separation of the two positions enhances shareholder value. Fama et al (1983) also argued that concentration of decision management and decision control in one individual reduces a board's effectiveness in monitoring top management. For example, when a CEO doubles as board chairman, this results in conflict of interests and increases agency costs.

The separation of CEO and chairman affects firms' performance because the agency problems are higher when the same person holds both positions. Yermack (1996) shows that firms are more valuable when the CEO and board Chair positions are separate by analysing a sample of 452 U.S. public firms between (1984 and 1991). Core, *et al.* (1999) finds that CEO compensation is lower when the CEO and board chair positions are separate. Brown and Caylor (2004) conclude that firms are more valuable when the CEO and board chair positions are separate. Botosan and Plumlee (2001) find a material effect of expensing stock options on return on assets.

V. METHODOLOGY

a) Sample/ Research Design

The data used for this study is originated from Audited Financial Statements of the listed firms and Balance Sheet Analysis of joint stock companies listed on Karachi Stock Exchange (2004-2010). The firms used are selected by non-probability sampling technique. A total of 12 listed firms are used for analysis in which one firm's (Attock Petroleum) data is not available due to some limitations. Panel data methodology is taking on because it combines time series and cross sectional data. The method of analysis is that of multiple regressions and estimation is Ordinary Least Squares (OLS).

b) Model Specification

The economic model used in this study is given as:

$$Y = \alpha + \beta_x + \varepsilon$$

Where, Y is the dependent variable. α is constant, β is the coefficient of the explanatory variable (corporate governance mechanisms), x is the explanatory variable and ε is the error term (assumed to have zero mean and independent across time period). By adopting the economic model as in equation (1) above specifically to this study, equation (2) below evolves.

$$\text{PERF} = \alpha + \beta (\text{BSIZE}) + \beta (\text{AGM}) + \beta (\text{CEO}) + \beta (\text{AUDCOM}) + \varepsilon$$

$$\text{ROE} = \alpha + \beta (\text{BSIZE}) + \beta (\text{AGM}) + \beta (\text{CEO}) + \beta (\text{AUDCOM}) + \varepsilon$$

Variable Description

Tables A and B below show the variables and their descriptions as used in this study.

Table A : Dependent variable description

Variable	Description/ Measurement
ROE = Return on Equity	$\frac{\text{Profit after tax}}{\text{Total equity shares in issue}}$
PM = Profit Margin	$\frac{\text{Profit after tax}}{\text{Turnover}}$

Table B : Independent variable description

Variable	Description/ Measurement
BSize = Board size	Number of directors on the board.
CEO = Chief Executive Status	Value zero (0) for if the same person occupies two or more posts among chairman, MD, GM and the Chief Executive and one (1) for otherwise.
AC = Audit Committee	The composition of audit committee that is outside as a proportion of the total for firm i in time t.
AGM = Annual General Meeting	The total number of meetings in a year

VI. EMPIRICAL RESULTS AND DISCUSSION

a) Descriptive Statistics

Table C shows the descriptive statistics of all the variables used in this study.

Table C :

	PM	ROE	BSize	AC	CEO	AGM
Mean	15.25	37.73	9.34	3.25	0.09	6.26
Median	3.70	41.70	10.00	3.00	0.00	5.00
Mode	2.60	0.00	11.00	3.00	0.00	5.00
Std. Deviation	22.59	99.68	2.14	0.59	0.29	3.69
Skewness	0.94	3.22	0.33	2.28	2.90	5.92
Kurtosis	-0.59	20.82	0.02	3.91	6.60	42.95
Range	91.20	899.30	9.00	2.00	1.00	30.00
Maximum Value	68.10	646.10	15.00	5.00	1.00	34.00
Minimum Value	23.10	253.20	6.00	3.00	0.00	4.00

From the above table we can conclude that mean of the PM of the firms is about 15.25 and ROE is 37.73. The result shows that for almost every N38 turnover, the profit earned is 15%. As the board size indicates that it is almost 10 in size that are perfect for the great performance of the company. The CEO status result shows that about 91% firms have the persons who occupy two or more positions in the firm; he may be the CEO or Chairman or Managing Director (MD) or may be the General Manager (GM). The result of the Audit committee indicates that round about 3 auditors are essential for good performance of a firm. The AGM indicates that at least 5 meetings are required for the firms.

VII. REGRESSION RESULTS AND DISCUSSION

Table D presents the correlation among the variables.

Table D :

Model No.	Dependent variables	Independent variables	Co-efficient (β)	T-statistic	P-value
1	PM	AC	-8.96	-2.04	0.04
		CEO	-17.01	-1.93	0.06
2	ROE	AC	-8.31	-1.92	0.06
		CEO	-17.02	-1.93	0.06

By applying regression test we conclude that profit margin has positive effect on board size and AGM, level of significant is low so we reanalyze the data and then from table D using Pearson Correlation, Profit Margin is positively correlated with the firm's board size and it has no significant (sig.0.15) see in appendix A. Similar result appear for annual general meeting. But Profit margin has a negative relationship with audit committee and CEO status and CEO status has significant (sig.0.06). The intercept and slope co-efficient are same in different time periods and for individual Table D also shows that ROE is also positively correlated with two of the corporate governance Variables as firm's board size and annual general meeting except for audit committee and CEO status but they are significant (sig.0.06). Also see in appendix B.

Table E: ANOVA – Profit Margin as a dependent variable

Model	Sum of Sq	df	Mean Sq	F	Sig.
Regression	4255.18	4	1063.79	2.22	0.08
Residual	34526.19	72	479.53		
Total	38781.37	76			

Predictors : (constant), Bsize, CEO status, AGM, Aud Com
Dependent variable : PM

Table F: ANOVA- ROE as a dependent variable

Model	Sum of Sq	df	Mean Sq	F	Sig.
Regression	3174.63	2	1587.31	3.30	0.04
Residual	35606.74	74	481.17		
Total	38781.37	76			

Predictors : (constant), Bsize, CEO status, AGM, Aud Com
Dependent variable : ROE

Table E & F indicates the analysis of variance (ANOVA) of the variables. With F-values of 2.2184 (sig.0.08) & 3.2988 (sig.0.04) for Profit Margin and ROE as performance proxies respectively. It clearly indicates that there is a strong relationship between the dependent variables as PM and ROE and the independent variables as Bsize, CEO status, AGM and Audit Committee at 1%, 5% and 10% levels.

Table G : t-test

No.	Hypothesis	t-statistic	P-value
1	H ₀ : There is no significance difference of profit margin between public & private companies.	-3.51	0.00
2	H ₀ : There is no significance difference of return on equity between public & private companies.	1.04	0.15
3	H ₀ : There is no significance difference of board size between public & private companies.	-0.72	0.23
4	H ₀ : There is no significance difference of audit committee between public & private companies.	3.13	0.00

By applying t- test, we conclude that our hypothesis that there is no significance difference of profit margin between public and private companies is true as the p-value is 0.00 so it is also highly significant. Same is the case with our hypothesis of that there is no significance difference of audit committee between public & private companies. But our hypothesis of that there is no significance difference of return on equity between public & private companies and there is no significance difference of board size between public & private companies as the p values are 0.15 and 0.23 respectively.

VIII. CONCLUSION

There is no doubt that a number of studies have been conducted so far and is still on going on the examination of the relationship between firm performance measures and corporate governance mechanisms, but the results of these studies are mixed. This study examines the relationship that exists between firm performances, by using indicators (ROE and PM) and four corporate governance mechanisms (board size, annual general meeting, chief executive status and audit committee). For data analysis we have used 11 oil and gas firms listed on the Karachi Stock Exchange for the period of 2004 - 2010. Panel data methodology is employed; the method of analysis is multiple regression and the t-test. The study discloses the following results:

- There is a positive relationship between two Firm Performance Measures (ROE and PM) and Two Corporate Governance Mechanisms (Board size & AGM) but they have no significant effect
- There is a negative relationship between ROE, CEO status and audit committees but they have significant effect.
- There is a negative relationship between PM and

CEO status and audit committee, but CEO status has a significant effect on PM.

REFERENCES RÉFÉRENCES REFERENCIAS

- Anderson, R., S. Mansi, and D. Reeb (2004) Board Characteristics, Accounting Report Integrity, and The Cost of Debt. *Journal of Accounting and Economics* 37 (September), 315–342.
- Brown, L. D., and M. L. Claytor (2004) Corporate Governance and Firm Performance. Gorgia State University, USA. (Working Paper.).
- Botosan, C., and M. Plumlee (2001) Stock Option Expense: The Sword of Damocles Revealed. *Accounting Horizons* 15 (December), 311–327.
- Yermack, D. (1996) Higher Market Valuation for Firms with a Small Board of Directors. *Journal of Financial Economics* 40 (February), 185–211.
- Eisenberg, T, S, Sundgren and M, Wells (1998): "Larger board size and decreasing firm value in small firms", *Journal of Financial Economics*, Vol 48, pp 35- 54.
- Lipton, M. and J. Lorsch, 1992, "A Modest Proposal for Improved Corporate Governance," *Business Lawyer* 48 (No. 1) 59-67.
- Klein, A (2002): "'Audit committee, board of director characteristics and earnings management", *Journal of Accounting and Economics*, Vol 33, pp375 400.
- Core, J., R. Holthausen, and D. Larcker (1999) Corporate Governance. Chief Executive Compensation, and Firm Performance. *Journal of Financial Economics* 51 (March), 371–406.
- Brian K.Boyd (1994)" CEO duality and firm performance: A contingency model". *Journal of Strategic Management*. Vol 16, pp 301-3012.
- B. Ram Baliga, R. Charles Moyer and Ramesh S. RAO CEO duality and firm performance: WHAT'S THE FUSS? (1995), Research Article, Received: 28 September 1994; Accepted: 25 January 1995 .
- Berg, S.V. and S.R. Smith (1978), 'CEO and Board Chairman: A Quantitative Study of Dual versus Unitary Board Leadership', *Directors and Boards*, Spring, pp. 34–39 .
- Brickley, J.A., J.L. Coles and G. Jarrell (1997), 'Leadership Structure: Separating the CEO and Chairman of the Board', *Journal of Corporate Finance*, Vol. 3, No. 3, pp. 189–220.
- Fama E F and Jensen M (1983), "Separation of Ownership and Control", *Journal of Law and Economics*, Vol. 26, No. 2, pp. 301-325.
- Cordery, C. J. (2005). *The Annual General Meeting as an accountability mechanism*. Wellington, New Zealand: Centre for Accounting, Governance and Taxation Research.

15. Marens, R. (2002), "Inventing corporate governance: the midcentury emergence of shareholder activism", *Journal of Business and Management*, Vol. 8, No 4, pp. 365390.
16. Marinetto, M. (1998), "The Shareholders strike back: issues in the research of shareholder activism", *Environmental Politics*, Vol. 7, No 3 (Autumn), pp. 125133.
17. Strätling, R. (2003), "General Meetings: a dispensable tool for corporate governance of listed companies?" *Corporate Governance*, Vol. 11, No 1 (January), pp. 7482.
18. Pitchforth, R. (1994), *Meetings Practice and Procedure in New Zealand* (2nd edn.) CCH New Zealand Ltd, Auckland.
19. Roberts, J., & R. Scapens (1985), "Accounting systems and systems of accountability understanding accounting practices in their organisationa contexts", *Accounting, Organizations and Society*, Vol. 10, No 4, pp. 443456.
20. Karpoff, J. M., P. H. Malatesta, & R. A. Walkling (1996), "Corporate governance and shareholder initiatives: Empirical evidence ", *Journal of Financial Economics* ,Vol. 42, No 3, pp. 365395.
21. Finance Committee on Corporate Governance (FCCG) (1999) *Report on Corporate Governance*, Malaysia: Ministry of Finance.
22. Walker, R. G. (2004)'Gaps in guidelines on audit committees', *Abacus*, vol. 40, no. 2, pp. 157-192.

Karachi Stock Exchange Listed Firms

Serial No.	Company	Symbol
1	Attock Refinery	ATRL
2	Byco Petroleum	BYCO
3	Mari Gas Co.XD	MARI
4	National Refinery	NRL
5	Oil & Gas Development	OGDC
6	Pak Oilfields Ltd.	POL
7	Pak Petroleum	PPL
8	Pak Refinery	PRL
9	P.S.O.XD	PSO
10	Shell Gas LPG	SGLL
11	Shell Pakistan	SHEL

Appendix B

	<i>Coefficients</i>	<i>Standard Error</i>	<i>T-Stat</i>	<i>P-value</i>
<i>Intercept</i>	43.80	14.35	3.05	0.00
<i>Board Size</i>	7.85	5.43	1.44	0.15
<i>Audit Committee</i>	-8.31	4.31	-1.93	0.06
<i>CEO</i>	-17.02	8.77	-1.94	0.06
<i>Annual General Meeting</i>	-4.45	3.18	1.40	0.16

Appendix A

	<i>Coefficients</i>	<i>Standard Error</i>	<i>T-Stat</i>	<i>P-value</i>
<i>Intercept</i>	29.16	17.75	1.64	0.10
<i>Board Size</i>	1.74	1.20	1.44	0.15
<i>Audit Committee</i>	-8.96	4.39	-2.04	0.04
<i>CEO</i>	-17.01	8.81	-1.93	0.06
<i>Annual General Meeting</i>	0.08	0.70	0.11	0.91

This page is intentionally left blank