

The Role of Outside Directors in Corporations with Significant Shareholders in Public Listed Companies on the Pakistan Stock Exchange

Ibad Ullah

Accounts officer, Sardcheena Public School, Dobian, Swabi:
ullahibad255@gmail.com

Zia Ur Rahman

Data Collection and Monitoring Assistant (DCMA), Education Monitoring Authority (EMA),
Elementary and Secondary Education Department (E&SED), Khyber PakhtunKhwa (KPK)
imziya@gmail.com

Muhammad Waseem

Accounts officer, Branded Mine & Minerals:
waseemakramm623@gmail.com

Abstract

This study investigates the role of the outside independent director and the effect of significant shareholders on firm performance. This study is based on quantitative research for which secondary data of Non-financial firms is collected from the PSX for 2007 to 2021. This study also investigates the effect of Firm size, Firm sales and Leverage on firm performance. The result shows that outside directors (ODR) affect positively the firm performance (TOBIN'S Q). This can be since ODR are autonomous, master and well mindful of distinctive businesses whereas significant concentrated shareholders (SS) have a solid coordinate than the scattered shareholders. More the voting power of the concentrated shareholders has given them administrative control which works within the best intrigue of the owners.

Keywords: *Outside directors, Significant Ownership, Tobin's Q, Share Price Return, Firm Growth, Firm Leverage, Firm Size.*

Introduction

The fall down of many top-level multinational companies like Enron, WorldCom and specifically Satyam Computers Limited, which is the largest accounting fraud in which about 2.8 Billion dollars was lost by shareholders due to the lack of corporate monitoring. There arises a need to focus on the number of dependent directors, outside directors, age, education, industry knowledge etc for better governance (Erkens et al., 2012; Arora&Sharma, 2016). This is important for the right decision-making when there are different numbers of dependent and outside directors (ODR). A firm's ODR is more important as they have a lot of knowledge of different industries for the right planning, on-time decision making and controlling the activities of the different firms. An outside director is not affected by internal management due to which they make independent views during the meeting discussions (Erkens et al., 2012). Outside directors have relevant knowledge of the industry and wide expertise through which they challenge top-level management during meetings

(Azeez, 2015). These scandals of Enron and WorldCom recapture the consideration of the controllers toward the quality of data by which outside directors control all the upcoming organizational challenges (Imhoff, 2003).

Mohamed (2015) finds that the CEO and board's Chairman are selected by the board members and most of the board members are selected by significant shareholders having more voting power than the dispersed shareholders, who provide quality information to the outside directors for the meeting of the company (Ahmad, Neveen & Hadi, 2014). Accountability, transparency, fairness and responsibility are the best corporate governance principles for the quality information exchange between outside directors and CEO (Doğan, 2013). As Outside directors are independent directors who are not regular employees and have no interest, independent, protecting small shareholders and not getting any payment if the firm performs well (Larcker., 2015). The audit committee and remuneration committee consist of outside directors. Outside directors "Whistle Blow" when the company is unhappy with a concern raised by the shareholders. Significant shareholder (SS) is the proportion of the top five shareholders to the shares outstanding. Those shareholders who have five per cent or greater than five per cent shares or bonds in a company in the UK, Arab, Pakistan etc. (Javid& Iqbal, 2010).

Prior literature reports that higher significant shareholder has good performance than dispersed shareholders because of the asymmetry of information (La-Porta., 2010). Significant shareholders of up to fifty per cent provide higher legal protection to the investors (Sanda, Garba & Mikailu, 2011). Higher significant ownership raises the ability of a shareholder to supervise the management because more will be voting power, which will affect the management (Javid& Iqbal, 2010)

During the financial crises of 1997-98, outside directors decreased the stock returns (Erkens et al., 2012). Position and control ought to be isolated; otherwise, management is focusing on personal benefit (Akbar, 2015). Daud et al. (2015) investigate that CG mechanisms are still not so strong in developing countries which are in the stage of implementation. Studies by Fama and Jensen(1983) propose that developed countries are leading in corporate governance strategies (CGS), so developing countries need to evaluate their mechanisms that how much they have improved them. The economic system, legal system, political system, market size etc are not so stable in developing countries which shows inconclusive results (Forbes, 2002).

Corporate governance mechanisms are based on transparency and fairness of information (Ehikioya, 2009). The interaction between the outside directors and significant ownership is dependent on the quality of reports given by the board to the outside director for the meeting (Brown &Caylor, 2009). Hsueh (2013) suggests that developing countries are lagging the developed countries in designing and implementing corporate governance, so developing countries have to evaluate regularly how much they have brought the change, which requires further research. Pakistan, a developing country, and also facing the problem of inconsistency in results, due to which this research attempts to examine and analyse the relationship among ODR, significant ownership and firm performance on PSX.

Prior studies argue that outside directors and Significant Shareholders (SS) are the effective elements that impact the Firm's Performance. The ratio of "Total Outside director to Total

directors” is used as a proxy for the Outside director, and used the Percentage of the Top five shareholders is as a proxy for Significant Ownership, and Share price return and Tobin’s Q are taken as a proxy for the Firm Performance. Firm Growth (FG), Firm Size (FS), and Firm Leverage (FL) Ratios are used as firm-specific variables. FG is measured by “Sale of firm’s current Year minus sale of previous year’s divided by sales of firm previous year”, FS is calculated by Log of Total Assets and FL Ratio proxies are, Total debts to Total Assets respectively. This study includes 30 companies listed on PSE from 2007-2021.

Literature Review

This section reviews the association between independent variables (Outside Directors (OD) and significant shareholders (SS)) and dependent variables (Firm Performance (FP)). FG, FS and FL are control variables. According to Gujarati and Porter (2009), dependent variables are dependent on other factors; independent variables tell us about the dependent variables and explain them. Independent variables are known explanatory variables. Control variables are of secondary interest and affect the relevancy among the variables. The control variable is characterized as auxiliary intrigued but has an impact on the dependent & independent variables.

Jang and Park (2011) state that the management tends to overstate shareholders’ wealth to hide the firm performance. Management sometimes focuses on personal benefits like reducing the risk of job loss, using the firm’s assets for personal use, and bonuses from the shareholders; therefore they overstate or understate the firm performance. These create an agency problem between shareholders and management (Javid& Iqbal, 2010). Such conflict between principal and agent can be reduced with the help of corporate governance strategies (CGS). Different CGS are utilized to decrease these agency costs e.g. Executive director, Nonexecutive directors, the board size, board independence etc. An outside director is one of the CGS for the reduction of the agency cost between the management and the shareholders. An outside director is also known as an independent director who is not a regular employee and has no interest, is independent, protects small shareholders and not getting any payment if the firm performs well (Abdekaber, 2018). Outside directors prevent minority investors and reduce the agency conflict between the investors because they have no personal interest and work only in the best intrigued of the owners (Abdullah, 2004).

Yasser et al. (2011) come across that outside director plays a positive role in firm performance by sighting the activities of the management. Ullah et al. (2017) investigate that outside directors (OD) are the major tools to monitor management activities and found that outside director protects the small shareholders and have a positive role in the FP. The OD helps in protecting the rights of the small shareholders; reduces the expropriation of the management and majority shareholders (Erkens et al., 2012). The significance of the agency problem increases the importance of the outside directors' ratio, age, education, industry knowledge etc (Erkens et al., 2012). According to (Sanda et al., 2011) a distant better blend of directors offers a more noteworthy viewpoint in the decision-making process. The outside director is actively participating in the discussion of all the problems and issues of the board meeting. The diverse knowledge, efficient strategy, and proper oversight helps outside director in making the right and timely decision (Zinkin, 2010). The outside director has wide relevancy and large experience and this is the base on which they challenge the top-level management in board discussions (Zuriawati, Purhanudin, & Rani, 2014). The high quality of information is provided by the Chairman to the outside director and this chairman is

selected by significant or concentrated owners due to which quality of information may be affected by significant or Significant Shareholders (Imhoff, 2003).

Abdekaber (2018) reports that it is the high quality of information which could enhance the firm performance by properly monitoring the management activities and their discretionary behaviour which leads management to the benefit of the shareholders and makes investments in the projects that benefit the shareholder. This information is provided to the outside director by the significant or concentrated owners, not the dispersed owners (Larcker et al., 2014). La-Porta. (1998) state that high-quality financial information reduces the asymmetry of information. In a firm's decision-making, the outside director gets accurate and reliable information. The best corporate governance principle includes accountability, transparency and fairness for the quality exchange of information between the outside directors and the top-level management e.g. CEO etc (Haniffa&Hudaib, 2006). This information is provided by the significant shareholders (SS).

The significant shareholder is the proportion of the top five or ten shareholders to the shares outstanding. Significant ownership has good performance than dispersed ownership because of the asymmetry of information (Gompers et al., 2003). Significant Ownership up to fifty per cent provides higher legal protection to the shareholders but above that percentage, shareholders voting rights raise due to which they select management of their interest which is harmful to the firm (La-Porta et al., 1998). Higher ownership significance raises the ability of a shareholder to supervise the management because more will be the voting power, which in turn affects the management, Due to which management does only in the best interest of the significant shareholders since they are afraid of the loss of their jobs if the management doesn't work in their favour they will be dismissed (Bhagat & Bolton, 2002).

Babalola (2013) investigates that ownership significance have affected negatively the firm execution when the proxy is growth in sales return and share price return, in underdeveloped countries of Asia because in Asian countries there is limited legal protection to the investors while on other perspective developed countries firm performance raise to 50% raise in significant ownership but above this, percentage the performance of the firm go down because top five shareholders make all the decisions in their interest, while small shareholders don't get anything. Prior studies of outside directors and significant ownership investigate negative affiliation with the firm execution (Azeez, 2015). The effectiveness of outside directors is still vague because firm-controlling shareholder uses their power to select the entire board members. It may be a political reason, environmental activists or consumer representative or sometimes the outside directors do not have enough skills or not performing efficiently (Azeez, 2015).

According to Erkens et al. (2012), outside directors have an inverse relation with firm performance. The crisis in 1997-1998 in Asia was due to poor corporate governance mechanisms (Azeez, 2015). Brown and Caylor (2009). During the financial crises of 1997-98, independent directors decreased the stock return (Erkens et al., 2012). If Ownership and control are the same then management will focus on personal benefit (Daud et al., 2015). The management does over-investments to increase the size of the company to get more personal benefits which are sometimes harmful (Bhagat & Bolton, 2002). The majority shareholder makes use of the firm asset for the private benefit which affects the small shareholders (Azeez, 2015). There is a misuse of resources when the CEO is in

favour of a majority shareholder who has brought him or her by his voting power (Ahmad et al., 2017).

Hypothesis development for outside director and the Firm Performance

Outside directors only protect the small shareholders of the firm and are independent having no other interest and don't get any reward if the firm is going well (Sanda et al., 2015). Outside directors add value to the Chairman or managing director's decision through their expertise, sound opinion on proposals, make and effective decisions and efficiently monitor if the post of the Chairman is separated from the CEO. Zinkin (2010) finds that outside directors are reducing the agency problem by reducing the agency cost and by doing so performance of the firm improves. In contrast, some arguments suggest that in Pakistan there's for the most part family owned and as a result of which the role of an outside director is still unclear. Other reason for not performing wills it is little compensation, more involvement in different firms or little knowledge of the concerned firm etc.

H1: Outside directors impact the firm performance and outside directors positively affect the firm performance.

Hypothesis development for the Significant Ownership and the Firm Performance

Significant shareholder means the top five shareholders in the firm. Significant owners voting power in turn increases the PF. The greater the significant shareholders more will be the voting right and the larger will be private profit benefit (Gompers et al., 2003). Significant ownership has good performance than dispersed ownership because dispersed ownership has asymmetry of information and significant owners have all the information regarding the firm due to which they make some private beneficial decisions (Forbes et al., 2002). A conflict of interest exists between the majority and the small shareholders because the majority shareholder has more voting power so sometimes, they use the business assets for personal use and give preference to personal benefits (La-porta et al., 1998). The CEO of the firm is familiar with the factors affecting the firm performance as they make the decision that is beneficial for their subsidiary.

H2: Significant ownership impacts the firm performance and significant ownership positively affects the firm performance.

Hypothesis development for the Firm Growth and the Firm Performance

FG is most important while doing investments. Firm growth is a measurement which tells us how much a firm is successful and how much it can expand. Firm growth is measured by researchers using percentage change in the sale. Studies by (Abughniema, Al Aishat, Hamdan, & Weshah, 2020) conclude that firm performance is positively affected by firm growth. Firm growth is crucial for owners, shareholders and potential investors same because it is the reason for the estimation of a firm's performance; Sales revenue is the most important with which a firm grows and its assets are converted into cash (Hand, 2005).

H3: Firm Growth impacts the firm performance and Firm Growth positively affect the firm performance

Hypothesis development for the Firm Leverage and the Firm Performance

Hsueh (2013) conducts an investigation which appears the converse connection between the FL and FP. The higher the obligations proportion, hazardous will be for the firm. The presentation of

the firm in hazardous item fragments gets to be unbalanced which has a negative impact. Leverage rightly use in the advancement of a firm and research and development can upgrade the value of the firm. Interest payment of the leverage with worse obligations has negative impacts on the firm. H4: Firm Leverage impacts the firm performance and Firm Leverage positively affects the firm performance

Hypothesis development for the Firm Size and the Firm Performance

Imhoff (2003) used the FS by taking the log of total assets. The sample is largely composed of the big firms of Pakistan while checking the impact on the firm performance. Omran, (2009) find that small organization have limited resources due to which they fail in proper decision-making, strategic directions, control and proper implementation of these plans.

H5: Firm Size impacts the firm performance and Firm Size positively affects the firm performance.

Data and Variables

Data

This study used the data from 2007 to 2021 taken from the Pakistan stock exchange to provide evidence of the relationship among the OD, SS and FP. The sample of 30 non-financial firms consists of 450 firm-year observations listed on Pakistan Stock Exchange. The data of companies are available for 10 years. Secondary data was collected from annual reports of the companies, the Security Exchange Commission of Pakistan, the Pakistan Stock exchange website, and other related sources. Later, variables data were collected for all the variables, and then data of the variables were put down on the MS Excel sheet. In this way, different data sheets were developed for the companies, which were selected for this study. Then, data was transferred to the Mini Tab from the MS Excel sheets for finding regression and correlation, and data was measured with each other and we got the positive and negative hypotheses.

Dependent Variables

Firm Performance

Firm Performance is proxied by two models.

Tobin's Q

This is used to measure firm performance. The formula for measuring Tobin's Q is Market capitalization divided by the value of the Total asset of the firm. This ratio is used to compare the market to the book value of the firm.

Tobin's Q = (Value of firm's market capitalization) / (Value of firm's total asset)

$$\text{Tobin's Q} = \frac{\text{Value of firm's market capitalization}}{\text{Value of firm's total asset}}$$

$$\text{Firm's market Capitalization} = \text{No of Shares Outstanding} \times \text{Share Price}$$

Share Price Return

Share Price Return is calculated as "Share Price of the current year minus Share Price of last year divided by share price of last year". This ratio tells about the per share return.

$$\text{Share price Return} = \frac{\text{Current year share price} - \text{last year share price}}{\text{last year share price}}$$

Share Price Return = (Share Price of Current Year - Share Price of Last Year) / (Share Price of Last Year)

Independent Variables

Outside Director

The independent outside director can play a significant role in protecting the rights of small shareholders from that of the majority shareholders and management. In this study, ODR is measured as “No of total outside directors divided by total directors”

$$\text{Outside Directors} = (\text{Number of total outside directors}) / (\text{Number of total directors})$$

Significant Shareholders

Significant shareholders are the top five percentages of the shareholders to the shares outstanding. This is calculated as “The percentage of top five shareholders in total.

$$\text{Significant Shareholders} = \text{Percentage of the Top five shareholders.}$$

Control Variables

Firm Size

The FS is calculated by taking the log of the firm’s total assets. The large size firm creates economies of scale and rise production of the firm and lowers the cost of production and makes the firm profitable.

$$\text{Firm Size} = \text{Log (Total Asset)}$$

Firm Growth

The FG is calculated as “Current year sales minus Last year's sale divided by Last year's sale”. The FG makes a comparison with the last year's sales that how much increase occurs in the sale of the firm.

$$\text{Firm Growth} = (\text{Sales of current year-sales of last year}) / (\text{Sales of last year})$$

Firm leverage:

Firm leverage is the ratio of Total debts to Total assets of the firm. This ratio tells that the greater the debt ratio greater will be the financial risk. The greater ratio raises the involvement of the debt holders which negatively affects firm performance.

$$\text{Leverage Ratio} = (\text{Total debts}) / (\text{Total Assets})$$

Research design

This section reports the research design for testing the hypothesis. This thesis proposes a procedure for testing the hypothesis. The first section provides the model for measuring the FP. The second section proposes the model for the association between the Outside director, the firm performance and significant ownership. The last section reports the sample of the study.

Methodology

This study uses the following models for investigating the effect of outside directors, significant shareholders, firm size, leverage and growth on the financial performance of the enterprises.

$$\text{Tobin's Q} = \text{OD} + \text{SS} + a\text{FS} + b\text{FL} + c\text{FG} + e \quad (1)$$

$$\text{SPR} = \text{OD} + \text{SS} + a\text{FS} + b\text{FL} + c\text{FG} + e \quad (2)$$

In equation one and two, Tobin’s Q (Market to book value) and SPR (share price ratio) are our dependent variable and represents firm performance. Whereas OD is the outside director, SS is

significant shareholders, FS is firm size, FL is the firm leverage, and FG is the firm sale growth “e” represents the error term.

Results

The findings of the research are discussed. The regression model investigates the association among the Outside Director (OD), significant shareholders (SS) and Firm performance (FP). In the first Section Descriptive statistics are discussed; while the Second section elaborates on the correlation between dependent and independent variables and the third section shows the regression model.

Descriptive Statistics of Independent and Dependent Variables

Table 4.1 gives the descriptive statistics for the independent and dependent variables. The independent variables are outside directors and significant shareholders, indicated by ODR and SS respectively. The Outside directors are proxies by No of Outside director to the total directors while the significant shareholder is proxies by the Top five shareholders percentage. The Firm Performance is proxies by share price return and market to book value or SPR and TOBIN’S Q , respectively. FL indicates firm leverage ratio and proxies by the total debts to total assets. FG indicates the firm sales growth ratio. The firm size is indicated by FS and proxies by the firm’s total asset log.

Table 4.1. Descriptive Statistics

Variable	Mean	StDev	Minimum	Median	Maximum	Skewness	Kurtosis
ODR	.153	0.021	0.106	0.120	0.201	1.06	0.19
SS	52.1	28.96	5.53	62.60	98.8	-0.39	-1.19
TOBIN’S Q	0.348	0.050	0.194	0.388	0.501	-0.21	0.62
SPR	-0.254	0.537	-1.345	0.100	0.836	-0.59	-0.99
FG	-0.907	1.308	-3.829	-0.117	2.994	-0.27	-0.88
FS	10.058	0.726	8.685	9.749	11.432	0.26	-0.44
FL	-0.333	0.310	-1.432	-0.344	0.354	-0.40	1.26

Table 4.1 reports the descriptive statistics. It highlights a collection of data. Its purpose is to summarize the sample. Mean refers central tendency of the data. It is obtained from the total population divided by the number of points. The median is the mid-value of the data. The mean and median for the Outside director are .153 and 0.120, respectively with a standard deviation of 0.021. Standard deviation measures the variation of the data about the central point.

The maximum and minimum samples are also called the largest observation and smallest observation. On average there are two outside directors, while the maximum numbers of total directors on the board are fifteen. These results are consistent with the finding of MCCG which require at least two or one-third of the total number of the board directors to be outside directors. The mean and median for significant shareholders are 52.1 and 62.60, respectively while the standard deviation for the significant shareholders is 28.96, which is lower than the other. This means that PSX on average shows significant ownership in most firms. Pakistani firms particularly have a typical family ownership structure which could be a reason for significant ownership. The mean and median of the TOBIN’S Q of the firm are 0.386 and 0.388, respectively while the

standard deviation for Market to Book value is .050. The mean and median for share price return are -0.156 and 0.100, while the standard deviation is 0.537. The FG mean is -0.907 and the median is -0.117, and 1.308 is the standard deviation. Sales growth is proxied by the Firm Growth. The mean of the FS is 9.917 and the median of the FS is 9.749. The mean and median of the FL are -0.333 and -0.344, respectively, while 0.310 is the standard deviation. The increased leverage degrades the performance of the firm because for leverage we pay the interest which lowers the performance.

Moreover, a significantly positive association exists between the significant shareholders and FP (TOBIN'S Q). These results are consistent with Ehikioya, (2009); Javid and Iqbal, (2010), who concludes that significant ownership provides quality information to the outside director for the right strategy-making to reduce the agency problem.

A positive association exists between the SS and the FP (Share Price Return) whose p-value of 0.034. This result is linked with Forbes (2002); Gomez et al. (2010) who conclude that Significant shareholders have symmetry of information than dispersed ownership, provide higher legal protection and have higher voting power for efficient supervision of the management. The above result is inconsistent with Forbes (2002) who concludes that a negative association exists between the SS and the SPR. The reason behind it is that it causes poor investment decisions and less legal protection for small shareholders.

The result shows a significantly positive association between SS and FG with a p-value of .020. The result shows consistency with Shelifer and Vishny (1997) who conclude that significant shareholders use effective mechanisms to avoid poor investment decisions, protect owners and dependence on the country's legal institutions for protecting the interest from managerial opportunism and optimal allocation of resources causing profitability, all of these cause an increase in the sale of the firm. SS shows a significantly positive association with FS. And supports the literature that SS compel the management to work for the benefit of the shareholders, which in turn protects the small shareholders (Haniffa & Hudaib, 2006).

Firm Growth shows a significantly positive association with TOBIN'S Q and NSPO (Firm Performance) whose p-values are 0.000. The increase in sale makes the firm profitable due to which market-to-book value of the increases which in turn increase the share price return.

Regression Results

The table reports the regression result. The regression model is built to show the effect of the firm performance on the outside director and significant shareholder (SS).

Regression Analysis Table: Dependent Variable: Tobin's Q

Table 4.3 gives us regression results. Firm Performance is proxy by TOBIN'S Q and SPR which are the dependent variables. The outside director is calculated by the number of total outside directors divided by the total directors. SS is an independent variable. SS indicates the top five shareholders percentage in a firm. FG indicates the firm's sale growth and FS is calculated by the log of total assets.

Table 4.3: Regression Result

Term	Coef	T-Value	P-Value
Constant	0.3495	9.22	0.000
ODR	0.367	2.74	0.007
SS	0.000504	5.09	0.000
FG	0.00635	3.01	0.003
FS	-0.00480	-1.04	0.299
FL	-0.03111	-3.28	0.001
R-Square Adjusted	15.02%		
F- Value	10.97**		

***, **, * indicate significance at the 1%, 5%, 10% level

Table 4.3 reports the regression result for the sample which is evident that the variables explain the firm performance at a statistically significant level with an F-value of 10.97. F statistic deciding to support or reject the null hypothesis. The p values are used for the finding of the individual statistically significant variables. The significant result means that the results likely did not happen by chance. The R-Square Adjusted shows a 15.02% variation in the firm performance (TOBIN'S Q). Higher R-Squared values may seem to be a better fit.

This regression model reveals that Firm Performance (Market to book value) has a positive association with ODR. The results are associated with the findings of Yasser et al. (2011) who concludes that outside directors have a diverse knowledge of the different industries and are expert in business strategic insight; and efficient supervisor. These are the qualities by which ODR increase the performance of the firm. Along with that outside directors protect small shareholders from the majority shareholders' expropriation; and reduce agency conflict between the management and shareholders. The greater the small shareholders' protection will be the investment (Ullah et al., 2017; Erkens et al., 2012). On the other hand, the outcome is contradictory to the results of Young (2005) who suggest that Firm Performance is not affected by the ODR.

Firm Performance (TOBIN'S Q) shows a positive significant association with Significant Ownership with a p-value of 0.000. These results show relevance with Ehikioya, (2009); Javid and Iqbal, (2010) who conclude that SS gives information to outside directors to make a strategy for the reduction of the agency conflict. The Firm Performance (TOBIN'S Q) has a significantly positive association with the Firm Growth with a p-value of 0.003. The p-value is the level of marginal significance within a statistical hypothesis test representing the probability of the occurrence of a given event. The increase in the sale makes the firm profitable due to which its market-to-book value will increase. This result shows relevance with the conclusion of Omran (2009) who investigates that increase in the firm sale rise the firm's market-to-book value. The regression model reports that the firm performance (TOBIN'S Q) shows a negative and statistically significant association with the FL with a p-value of 0.001. This means that an increase in leverage will decrease the performance of the firm (TOBIN'S Q) because it increases the interference of the debt holders in the management decision which is sometimes harmful to the firm performance.

Regression Analysis: Table: Dependent Variable: SPR

Table 4.4 report the regression results. ODR is the independent variable which represents the

number of outside directors in a firm. It is calculated by the number of outside directors to the total director in a firm. SS is the percentage of the top five shareholders in a firm. Tobin's Q is the firm's Market to Book value. FG indicates the sale growth of the firm and is proxied by the current year's sales minus last year's sales divided by last year's sales. FS shows the size of the firm and is calculated by the total assets log while FL is calculated by the total debts divided by the total assets of the firm.

Table 4.4: Regression Results

Term	Coef	T-Value	P-Value
Constant	-0.167	-0.39	0.699
ODR	1.03	0.68	0.501
SS	0.00212	1.88	0.064
FG	0.0878	3.70	0.000
FS	-0.0213	-0.40	0.686
FL	-0.129	-1.21	0.235
R-Square Adjusted	5.36%		
F- Value	4.39***		

***, **, * indicate significance at the 1%, 5%, 10% level

Table 4.4 report the regression results for the sample evident that the variables included in the model explain the FP (SPR) at a statistically significant level, as indicated by the F-Value 4.39. F-statistic decide to support or negates the null hypothesis. The significant result means that the results likely did not happen by chance. The R-Square Adjusted of the regression model shows a 5.36% variation of the FP (Share Price Return). The firm performance (FP) has a significantly positive association with significant ownership at a 5% level of significance. When there is significant ownership then shareholders will have more voting right due to which shareholders will select the right board and management which will, in turn, raise organizational benefits. This result shows a resemblance to the result of Javid and Iqbal, (2010). Though this outcome is contradictory to the literature added by Fan and Wong (2002) who investigate that significant shareholders have a negative impact on the firm performance because more the dispersed ownership less will be the need for debts; the lesser the debts less will be the impact of debts holders on firm's management. Firm Performance (SPR) has a significantly positive association with firm growth at a 1% level of significance with a p-value of 0.000. The outcome supports the results of Hsueh (2013) who argues that growth-focused strategies are beneficial for the firm sale growth rate.

Conclusion

The result suggests that outside directors in this research have a significantly positive effect on the level of the firm performance (Tobin's Q). This outcome supports the findings of Brown and Caylor, (2009) who conclude that the outside director is an expert and well aware of the different industries due to which OD rise the TOBIN'S Q of the firm.

However, the role of OD in SPR is positive and statistically insignificant and it is also possible that this insignificance may be due to small sampling, using limited data, demographic similarities and political or family ownership. The result supports the result of Ponnu and Karthigeyan (2010). The role of the outside director is insignificant because in Pakistan there is mostly family ownership

due to which most outside directors are brought by family reference or political reference due to the outside director has limited knowledge of the outside director of related industry, while significant ownership has a significant role because they have more voting power by which they select the right management team for the organization. Due to this, they can raise the profitability of the firms (Zedan & Abu Nassar, 2014).

The result shows that SS has a significantly positive association with the FP (TOBIN'S Q and SPR). And the result supports the literature that it is the significant owner who has more knowledge of the firm due to which they raise the profitability (Haniffa and Hudaib, 2006). The significant owners are well updated with the company's current status than the dispersed ownership due to which they make the right decision. Significant shareholders are well aware of the company's strengths and weaknesses. Those are the reasons that it is the significant shareholder who increase the performance of the firm.

For future research the outside director's role is still unclear; it may be due to the small sample size, and short-term observations, some weaknesses are found in the data collection from the annual reports, the Pakistan stock exchange website, demographic similarity, family relationship or asymmetry of information. There is a direction for future research that, what is the role of an outside director in an organization?

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