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The Effect of Ownership and Board Composition on Firm Performance: Evidence from the Listed Firms in Pakistan

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Abstract: *This research aims to find the effect of ownership and board characteristics on a firm's performance in listed firms in Pakistan. Data from 75 listed companies were gathered for this purpose between 2011 and 2018. The study's finding shows that board and ownership characteristics have a significant effect on firm performance. The effect of foreign ownership on performance is negative and significant, but state, family and military ownership have a positive and significant impact. The result of board characteristics shows that the performance of the company is significantly impacted and adversely affected by board size. Whereas a positive and significant effect of female board members on business performance was discovered. Among other variables leverage, size and age have a positive and significant effect on RTOA. The result of board characteristics and other control variables changes when compared between family, state, foreign and military ownership.*

Key Words: Ownership, Firm Performance, Pakistan

JEL Classification:

Introduction

The public limited firm's ownership structure has an important role in the business world since it defines economic competitiveness to give their managers who hold different positions within this company a further appeal than those who have fewer share rights. Anyone may buy an asset, whether of a tangible or immaterial nature, public or private. The relevant authorities shall identify its ownership and rights and refer to these rights as bundles of rights divided and owned by various parties. Anyone may purchase an asset. It appears the ownership process is complicated as anyone can buy, trade, or drop ownership in multiple ways simply and whoever owns this benefit can profit from it before it is sold (Holderness et al. 1999).

Numerous studies have concentrated on the connections between ownership structure and company results in the literature on Corporate Governance (CG). Though, the results of these experiments remain somewhat unsatisfying and false (Tam and Tan 2007). While most previous studies have shown that

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institutional ownership has a positive relation with foreign ownership, directors, and company performance, others have shown that they have been either negative or not related. Pakistan was ruled by the British around 200 years before it gained independence from India on 14 August 1947, which had strongly affect the growth of its CG mechanisms (Farooque et al. 2007). These are considerably close to the English organized and regulatory system in Corporations, Parliament, and highly authoritative red tape. Moreover, long-term economic mistreatment and political dominance contribute to corrupt institutions and the impediment to the growth of the large capital market.

Rashid (2020) also added that global emphasis is a norm. In addition to the fact that some countries are now concentrating ownership in certain countries such as the Netherlands, the United States and England have a high degree of protection for investors rather than legitimately offering security for shareholders. The justification for anti-investor protection is for long-term success rather than short-term performance. Often the manager is impatient because of the short-term bond pressure and is pressuring them to adopt the decision that could damage the company's long-term profitability. To fix this situation, anti-investor protection offers managers incentives to concentrate instead of short-term on long-term profitability.

The decisions of managers have a significant effect on an organization's principles, and such results benefit increasing the resources of administrations that influence the general shareholders, but when they do not decide on the best interests of businesses, their decisions directly affect the efficiency of their company. Furthermore, suppose regulatory authorities are more worried about effectiveness. In that case, they essentially motivate focused ownership in firms and share certain benefits regulated between control and non-controlling shareholders in boosting corporate efficiency.

Therefore, the goal of this investigation learning is to judgmentally test the impact of board independence with ownership structure by provided that valuable visions around board size, independence, and ownership structure. This research will also contribute to a variety of ways to literature. First, by analyzing the impact of corporate board characteristics, the survey expands previous research into corporate structure and firm achievement. Second, most of the previous research focused on accountancy or business and firm results in studying the impact on company performance of the ownership structure. Very few empirical studies were both focused on metrics for evaluating this relationship.

The board has assigned the responsibility of protecting the company's shareholders by examining the issues with precision through tally values which limit the chances of prosperity loss and failure of the company' They focus mainly on illegal activities, as the decision-making powers of their administrators have poorly suffered in previous organizations like Enron and WorldCom. The study thus covers and pays to the research form by data from Pakistani institutions to study the potential effect on the corporate success of the Pakistan-listed business of the Board composition and ownership structure.

Current studies would explore the effect on company performance of the Board Size, Independence Board, Gender & Liquidity. Recent studies can also affect the business performance of ownership, insider ownership, company size, growth, and age.

This study's primary purpose will be to evaluate the connection among ownership Assembly, Board Composition, and Firm Performance. So, based on the above objective, we must answer the following questions.

1. Is board Independence influenced by Firm performance?
2. What will be the relation of Board size with firm performance?
3. Is gender influenced by the firm performance?
4. What is the relation between ownership structure and firm performance?

Literature Review

Ownership Structure and Firm Performance

Agency philosophy notes that due to a separation of management from financiers (ownership and control), there might be a problem between owners and managers between agencies (Shleifer and Vishny 1997). Sponsors or contractors raise capital from various stockholders to make them profitable uses to provide greater returns for investors (Hu et al. 2020).

The study examined by UMAR, corporate governance associations focusing on Industrial Indian industries on behalf of secondary information in nature has been collected from both economic report and the BSX, and sampling Stratified by the chance specimen, and surveys T-Tests, F-Test, and post-hoc ANOVA test were applied. The analysis is also focused on Corporate governance. The composition and ownership structure of boards has remained regarded as independent variables. Their findings indicate that the board size, external chairman, board composition, and firm performance are favourably related. To avoid such dreadful circumstances, stockholders try to keep the ownership structure in form by focused ownership of a set of persons, which will let them way managers' activities to minimize the problem of the agency, which in turn will increase the efficiency of the organization (Kao et al. 2019; Hanafi et al. 2018). Several previous studies have demonstrated and accepted this perception of consolidation of ownership into the hands of a small group (e.g., institutional shareholders) to monitor managers' actions as a producing value for their owner strength and power (Colpan and Yoshikawa 2012). Kiel and Nicholson (2006) suggest that the International corporate governance exam and support for Australian leaders have been studied to demonstrate the same environment for its corporate success and its related board structure with respect to its Australian context. The research was based in Australia, where secondary data was obtained for review, and a selection from Australia's stock exchange limited in 1996 from 2005 the top 500 companies were chosen. In the analysis, the firm size was taken as a control variable. The results showed that the internal director's firm value positively relates to the company's efficiency.

Ganguli and Guha Deb (2016) study that Ownership Structure and Council Composition have substantial effects on both bond markets and the accounting performance of Indian companies. The item's emphasis was on Indian non-financial enterprises, non-banking enterprises, and government sector enterprises in the Indian marketplace. Secondary information was obtained from the Indian stock exchange's yearly reports. The sample was reduced to two hundred and sixty-five firms. As output commissions, they used Tobin's Q and ROA. The study results suggest that the firm's ownership focus and board size have affected the accounting and market performance and

then require little impact on the board's independence. Guest (2009) examined the board size relationship and took the software called DataStream, which is useful for all variables, the corporate board, and all other financial variables from 1981 to 2002, particularly for British-based firms and the secondary details. And there are 2746 companies in the final survey. In addition, Tobin's Q, ROA, and findings indicate that the board's scale adversely impacts firm efficiency when evaluating hypotheses.

A family-owned business is one that manages and run by the family finished a ratio of share ownership dominated by family fellows or the existence of family members on the board of management (Anderson and Reeb 2003). In emerging countries, such as Indonesia, family ownership controls most of the stock ownership (Claessens et al. 2000).

The results of studies on the relationship between family ownership structure and firm performance have remained varied. The performance of a corporation is genuinely through family ownership (Juanda and Jalaluddin 2020). Family ownership has a bad connection with company performance in Romania, but it has a fortunate relationship with firm achievement in Germany. MUNTAHANAH et al. (2021) appraised the success of family and non-family businesses in Indonesia, using data from 31 customer goods businesses listed on the Indonesia Stock Exchange from 2005 to 2009. They exposed that non-family businesses outperform family businesses and that there is no connection between family ownership and business performance.

Several experiential pieces of research on the relationship between foreign ownership and firm performance have remained lead about the world. Douma et al. (2006) found a satisfactory result of foreign ownership on company performance as assessed by ROA and Tobin's Q using the Ordinary Least Squares (OLS) model on an Indian firm sample. Based on a T-test. Selected past researchers initiate that the ROA of foreign-owned enterprises in Turkey is more advanced than the ROA of nationally retained firms. The variance in ROA among the two groups of businesses can be attributable to foreign-owned companies' large skill to control and manage the administration process. Bilyk (2009) catch that foreign ownership is completely linked to performance (as assessed by ROA and ROS) and profitability of Ukrainian-based enterprises using IV-GMM estimate. Nonetheless, foreign owners from affluent states like the United States and the Republic of Cyprus are the key basis of this application.

Board Composition and Firm Performance

There are incoherent results to the degree to which the board relates to firm efficiency. Many studies have investigated the relationship between board size and corporate performances in various European countries, including the UK, Germany, France, the Netherlands, and Italy (including Tobin Q and Return on Equity), and showed negative links between corporate performance and board size (García-Ramos et al. 2017; Pucheta-Martínez et al. 2019). Earlier studies have shown that a decline in Tobin's Q and Return on Equity is closely linked to increased management size in the UK, the Netherlands, and Germany.

Similarly, research in Malaysia and India found that larger boards of directors can have positive effects by lowering agency costs (Dwivedi and Jain 2005; Abidin et al. 2009; Mishra and Kapil 2018). Some studies (Kumar and Singh 2013; Mak and Kusnadi 2005;

Yermack 1996) contradict the findings of other studies that impact the performance of companies, which say that larger boards are less successful and have a negative impact on performance. Ali and Saeed (2011) investigated the ownership structure and their relationship to Pakistan's corporate performance and found a way to discover the mystery behind ownership structure and focused primarily on the investors directly involved in Board decisions, particularly investors who formed part of BOD's and corporate governance theory. The analysis was based on the Pakistan Financial sector. Secondary data were taken from KSX and selected KSX§ listed firms in the first place and subsequently because their samples' data were not available for companies limited to Sixty-seven firms. The findings indicated that shareholders with more stakes in the company only took decisions that benefitted themselves solely without taking account of the other shareholders' interest so this action by the shareholder has a negative effect on the output of the business.

Hypothesis Development

The relationship between the internal governance and corporate performance of Hindustani companies was examined by (Jackling and Johl 2009). The research focuses on the Indian capital market from which secondary figures were obtained for the year ended 21 March 2006, on the Bombay stock exchange. This study indicated that a more affirmative effect on the organization's performance would improve access to different assets and favour the publicity of the extreme situation and influence their performance more positively.

So, based on the above literature, we will formulate the following hypothesis.

H1: There is a relation between board size and firm performance.

H2: Board independence is strongly influenced by firm performance.

H3: Female board member has a significant effect on firm performance.

H4: Family ownership has a significant effect on company performance.

H5: Foreign ownership has a significant effect on the company's performance.

H6: State ownership has a significant effect on company performance.

H7: Military ownership has a significant effect on company performance.

Methodology

Population and Sample Selection

All non-financial firms on the Pakistan Stock Exchange constitute the population of the analysis, and convenience sampling techniques will be used to pick samples. In addition, our samples will be limited to 75 listed firms on the Pakistan stock exchange by various accounting practices, notes, and disclosure methods, and the non-responsible data from the company. The secondary data from every company's financial statement for 2011-2018 will be included in the current analysis.

Dependent Variable

The dependent variable is a variable that varies when the independent variable is modified. Taouab and Issor (2019) indicate that business success provides the company productivity, efficiency, and effectiveness as an achievement or result obtained by

management, economics, and marketing. Asset Return (ROA) is a measure of profitability in relation to total assets. ROA gives a manager, investor, or analyst an indication of how effective a business's management is in using its assets for profit (Chbib and Page 2020). In this thesis, we will follow some previous studies and select ROA as a dependent variable.

Independent Variable

The independent variable is the key element; when it changed, the dependent variable also changed. The Composition of the Board as an independent variable is selected in this analysis. Therefore, the composition of the Board of Directors was determined by means of the Board size, referring to the total number of board members. Female directors determine board independence defined by separating the independent director from the overall number of board members, and the gender ratio in a board (Hutchinson et al. 2015; Demsetz and Villalonga 2001)

Furthermore, the Ownership Structure was calculated with the help of Foreign ownership and Family ownership which is the detail derivation method (Khan et al. 2020; Manna et al. 2016).

Control Variable

A control variable is an aspect that is not changed in the entire experiment as its stable condition allows a clearer understanding of the relationship between the other variables. In this thesis, we will use some control variables such as Growth, which can be measured as a percentage of one-year sales change. Firm age *(age)* can be calculated as the number of years since its foundation (Harjoto and Rossi 2019). The firm size (*F size)* as a logarithm of entire resources will also be in the control variables (Amin et al. 2021: Amin et al. 2019: Sheu 2007).

Model

We will use the following regression models in the current analysis.

$RTOA_{it} = \beta_0 + \beta_1 BS_{it} + \beta_2 BI_{it} + \beta_3 Gen_{it} + \beta_4 FO_{it} + \beta_5 FOW_{it} \beta_{6+} SOE_{it} + \beta_7 Military_{it} \beta_8 Fsize_{it} + \beta_9 Age_{it} + \beta_{10} Growth_{it}$

ROA: Return on Asset

BS: It means Board Size

BI: Board Independence

Gen: Female directors on the board

FO: Family Ownership

SOE: State Own Enterprises

Military: Military Ownership

FOW: Foreign Ownership

Fsize: Firm size

Age: it represents the age of a firm

List of variables

Variables	Acronym	Measurement
Dependent Variables:		
Return on Asset	*RTOA*	The profit on assets is calculated by sharing the net revenue through whole assets.

Independent Variable		
Board Size	*BDS*	Board size is calculated through the entire figure of board members.
Board independence	*BDI*	Sharing independent directors by the total number of board of directors
Gender	*FM*	Number of Females on the board
Family Ownership	*Family-D*	Use Dummy variable 1 when the Owner is set on a big position of the company like CEO or manager if not in a position than 0
Foreign Ownership	*Foreign-D*	Use Dummy variable 1 if a company has foreign ownership otherwise 0.
State Own Enterprises	*State-D*	Use Dummy variable 1 when the state ownership is above 51% and otherwise 0
Military Own Enterprises	*Military-D*	Use Dummy variable 1 when the Military Ownership is above 51% and otherwise 0
Control Variable		
Firm Size	*Size*	The usual logarithm of entire resources.
Firm Age	*Age*	Number of years since the foundation of the company
Growth	*Growth*	growth, which is measured as a percentage of one-year sales change.

Results and Discussion

Descriptive statistics

Table 1 reports the preliminary descriptive statistics of all the variables included in our regression models. Performance proxy based on asset efficiency RTOA has a mean value of 49.5%. whereas performance with respect to equity efficiency is 19.4% and is much poor. Board independence member is another Important variable, and its mean value of 4.5 indicates that there are typically four independent board members on every board. The average value for female board members is 1.12, which indicates very low female participation. The variable LEVER represent the total debt of the listed companies and has a mean value of 29.7%, indicating that these firms carry less debt compared to their assets. The average age of the selected company is 39.8 and the log of total assets represented by size has a mean value of 9.45.

Table 1

Descriptive statistics

Variables	N. Observations	Mean	Median	SD
RTOA	2400	0.495	0.079	5.177
RTOE	2400	0.194	0.187	0.537
BDI	2400	4.577	4.000	1.997
BDS	2400	7.870	7.000	0.382
FM	2400	1.122	1.000	0.923
Lever	2400	0.297	0.204	0.564
Size	2400	9.459	9.511	1.666
Age	2400	39.822	33.000	24.300

*,** and *** represent the significant level at 10, 5 and 1 per cent. RTOA represents a return on assets, RTOE represents a return on equity, BDI is the number of independent directors on board, BDS is the size of the board, FM represent the number of females on board, LEVER represents leverage, size is a total asset of the firm and Age shows the number of years since the firm is listed in the stock exchange

Table 2

Correlation matrix

Variables	RTOA	RTOE	BDI	BDS	FM	LEVER	SIZE	AGE
RTOA	1							
RTOE	-0.0117	1						
BDI	-0.014	-00599	1					
BDS	-0.046	0.006	0.385***	1				
FM	0.141***	0.0146	0.088**	0.041	1			
LEVER	0.026	0.036	0.014	-0.032	0.029	1		
SIZE	0.012	0.188	-0.181***	-0.049	-0.022	0.053	1	
AGE	0.014	0.0484	0.152***	0.175***	0.055	-0.050	0.217***	1

The result for multicollinearity is presented in table 2. The correlation coefficient between different variables suggests no sign of multicollinearity. Board size and board independence members have the highest correlation coefficient of 0.38. Board size and independent board members are negatively correlated with RTOA. Whereas female board members, leverage, size and age are positively correlated with RTOA.

Table. 03 Differences in firm performance with respect to ownership structure

Variables	RTOA	RTOE
BDI	0.022	-0.012*
	(1.560)	(-1.720)
BDS	-0.165***	0.013

	(-3.820)	(1.520)
FBM	0.975***	0.009
	(3.540)	(1.220)
LEVER	0.220**	0.019
	(2.320)	(0.900)
SIZE	0.138***	0.064***
	(4.310)	(4.130)
Age	0.004**	0.004
	(2.500)	(1.100)
Family-D	1.288***	-0.030
	(3.850)	(-1.310)
Foreign-D	-0.248**	0.187***
	(-2.46)	(7.220)
State-D	0.914***	-0.036
	(3.510)	(-1.710)
Military-D	1.079***	0.048
	(3.340)	(1.860)
N. of Obser	2400	2400
F-statistics	3.689***	19.260***
R-Square	0.038	0.061
Adj. R-Square	0.033	0.056
RMSE	5.086	0.522

The result of ownership on firm performance results is reported in table 3. The result shows a positive and significant coefficient for family (1.288), military (1.079) and State-owned (0.914) listed enterprises in the Pakistan stock exchange. Where an is a negative and significant coefficient for listed foreign enterprises (-0.248) in Pakistan. These results suggest that in terms of asset efficiency the family, state and military-listed enterprises outperform the foreign-listed enterprises. However. With respect to return on equity the coefficient of foreign enterprises is positive and significant. This suggests that in terms of equity performance foreign enterprises are better. Among other explanatory variables female board members, leverage, size and age have a positive and significant effect on RTOA. Whereas Boards size has a negative and significant effect on RTOA. Similarly, the effect of size on RTOE was found positive and significant. Whereas the effect of an independent board member on RTOE was found negative and significant.

Considering various ownership, table 5 and 6 show the impact of our explanatory factors on RTOA and RTOE. The result with respect to RTOA indicates that independent board director has a significant and positive effect on RTOA in family and military-owned enterprises suggesting that as independent director increase the board firm assets is efficiently used and thus result in

high performance. Whereas it is negatively associated with the RTOA of foreign listed enterprises, suggesting that as the independent director increases in the board it results in poor performance of foreign enterprises. The effect of the size of the board is positive on the RTOA of state-owned firms and negative on family enterprises. These results suggest that increasing board size in family enterprises will enhance the agency cost and thereafter results in reducing the performance of the family business. The inclusion of female board members has a positive effect on the RTOA of family and military-owned firms. Among other variables, leverage and size have a positive and significant effect on RTOA on family and foreign enterprises. Whereas the effect of leverage on the RTOA of military-owned enterprises was found negative and significant. The effect of firm age was found significant and positive on the RTOA of foreign and state-owned firms.

Table 4

Effect of board independence, size and other control variables on RTOA

Variables	Combined	Family	Foreign	State	Military
BDI	-0.025	0.089**	-0.012***	0.001	0.013**
	(-1.25)	(2.350)	(-6.160)	(0.560)	(2.850)
BDS	-0.167***	-0.248**	0.002	0.008**	0.005
	(-3.900)	(-3.070)	(0.620)	(2.460)	(0.590)
FBM	0.808***	1.855***	0.003	0.010	0.019**
	(3.540)	(3.490)	(0.600)	(1.350)	(2.550)
LEVER	0.207**	1.727***	0.029**	-0.006	-0.002**
	(2.400)	(4.140)	(2.070)	(-0.230)	(-2.23)
SIZE	0.084**	0.244***	0.033***	-0.007	-0.003
	(3.280)	(3.970)	(8.570)	(-1.390)	(-1.110)
Age	0.004**	-0.002	0.001***	0.001***	-0.001
	(2.570)	(-1.280)	(5.310)	(7.260)	(-0.530)
N. of Obser	2400	1152	316	320	320
F-statistics	5.499***	6.562***	29.890***	22.100***	9.152***
R-Square	0.027	0.063	0.337	0.08	0.077
Adj. R-Square	0.024	0.057	0.322	0.065	0.057
RMSE	5.110	7.228	0.064	0.099	0.090

Table 4 shows that independent board members have a significant and negative effect on the RTOE of foreign and state enterprises. Whereas a positive and significant effect on the RTOE of Military enterprises. Similarly, among other board characteristics Board size have a positive and significant effect on the RTOE of family and military enterprises but a negative and significant effect on the RTOE of state enterprises. Besides this female board members have a significant and negative effect on the RTOE of foreign enterprises, which shows that including a female as board director reduces the RTOE. Among other firm-specific variables, the effect of leverage on the RTOE of family, Foreign and state-owned enterprises is positive and significant but negative and significant with the RTOE of Military enterprises. These results suggest that family, foreign and state firms follow the trade-off theory whereas military enterprises follow the pecking order theory. The effect of size on RTOE was positive and significant for all types of ownership except

state-owned enterprises. It is also clear from the table that the effect of age on RTOE is positive and significant for foreign and state-owned enterprises.

Table 5

Effect of board independence, size and other control variables on RTOE

Variables	Combined	Family	Foreign	State	Military
BDI	-0.012*	-0.016	-0.022**	-0.006**	0.041***
	(-1.830)	(-1.050)	(-3.060)	(-2.60)	(5.160)
BDS	0.013	0.051*	-0.023*	0.004	0.015*
	(1.520)	(2.500)	(-1.730)	(0.710)	(1.970)
FBM	0.017**	0.01	-0.109***	0.021	-0.007
	(2.580)	(0.950)	(-3.660)	(1.710)	(-0.510)
LEVER	0.029	0.327***	0.510***	0.080**	-0.013***
	(1.200)	(3.360)	(-4.350)	(2.860)	(-5.770)
SIZE	0.067***	0.123***	0.284***	0.006	0.019***
	(4.220)	(3.520)	(7.410)	(1.230)	(5.130)
Age	0.002	0.006	0.002**	0.006*	-0.005
	(0.800)	(1.110)	(3.140)	(1.820)	(-1.620)
N. of Obser	2400	1152	316	320	320
F-statistics	4.466***	3.659***	14.730***	9.909***	39.980***
R-Square	0.044	0.078	0.364	0.135	0.283
Adj. R-Square	0.041	0.073	0.349	0.115	0.267
RMSE	0.526	0.667	0.396	0.103	0.130

Conclusion

In this study, the effect of ownership, board characteristics and other control variables is investigated on the Listed firms of Pakistan. The yearly data from 2011 to 2018 was converted to quarterly. We have used ordinary least square methods. The result of the study shows that family, state and military-owned listed firms have a significant and positive effect on performance. While the effect of foreign-owned enterprise is negatively associated with the performance (RTOA) in Pakistan. However. With respect to return on equity the coefficient of foreign enterprises is positive and significant. This suggests that in terms of equity performance foreign enterprises are better. Among other explanatory variables female board members, leverage, size and age have a positive and significant effect on RTOA. Whereas Boards size has a negative and significant effect on RTOA. Similarly, the effect of size on RTOE was found to be positive and significant. Whereas the effect of an independent board

member on RTOE was found negative and significant.

Considering various ownership, table 5 shows the impact of our explanatory factors on RTOA and RTOE. The result with respect to RTOA indicates that independent board director has a significant and positive effect on RTOA in family and military-owned enterprises suggesting that as independent director increase the board firm assets is efficiently used and thus result in high performance. Whereas it is negatively associated with the RTOA of foreign listed enterprises, suggesting that as the independent director increases in the board it results in poor performance of foreign enterprises. The effect of the size of the board is positive on the RTOA of state-owned firms and negative on family enterprises. These results suggest that increasing board size in family enterprises will enhance the agency cost and thereafter results in reducing the performance of the family business. The inclusion of female board members has a positive effect on the RTOA of family and military-owned firms. Among other variables, leverage and size have a positive and significant effect on RTOA on family and foreign enterprises. Whereas the effect of leverage on the RTOA of military-owned enterprises was fond negative and significant. The effect of firm age was found significant and positive on the RTOA of foreign and state-owned firms.

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