

Corporate governance and firm performance: A pragmatic investigation from insurance industry of Pakistan

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ABSTRACT

The study aims to explore the impact of corporate governance on financial performance of insurance industry of Pakistan. The study employs return on assets and return on equity as accounting measures of financial performance which explain the degree to which assets and equity are put in use efficiently while market to book ratio and price earnings ratio as marketing measures of financial performance explain insurance companies' overall performance in the market. Board composition and ownership structure, the two constructs have been employed to measure corporate governance of which board composition comprises board size, chairman/CEO duality, and independent directors on the board; while ownership structure encompasses institutional shareholding. Findings of the study suggest that institutional shareholding ratio, board size, independent directors' ratio, and leverage affect return on assets and return on equity positively whereas, CEO duality and firm size affect the same inversely. There is diverse nature of association between the marketing measures of performance and board size, firm size and institutional shareholding. In future, the study may be extended to more corporate governance dimensions like audit quality and more variables in corporate board structures like diversity in members, qualification and experience of the executive directors, frequency of board meetings etc. and added variables in corporate ownership like block-holding, family ownership, shareholding period etc. and increased sample size for more generalized results.

Keywords: Corporate governance, firm performance, insurance, Pakistan.

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INTRODUCTION

Corporate governance has gained excessive importance in corporate world in a couple of decades because of agency issues becoming headlines after some blue chips from Britain and United States dissolved overnight e.g. in 2000s, WorldCom was found in profit management malpractice, Enron charged for concealing poor financial condition, Andersen, the accounting firm of Enron booked for being accomplice by failing to identify the matter, Dynegy brought into investigation for accounting malpractices, and various others including Waste Management, Adelphia Communications, Imclone Systems and Rite Aid were involved in sundry

malpractices (Fernando, 2011). After the fall of fish in both England and US, various corporate governance compliance codes were introduced including Sarbanes-Oxley Act enacted by Federal Administration of the US and Cadbury Report by London Stock Exchange (Fernando, 2011). This increased importance of corporate control mechanisms in all the countries around the globe and it became mandatory for corporations to comply with the best practices of Corporate Governance either set by Sarbanes-Oxley Act, Cadbury Committee, or compliance practices introduced by relevant governing bodies in various countries. Likely in Pakistan, this

became mandatory for corporations to comply with the best practices according to the Code of Corporate Governance introduced by Securities and Exchange Commission of Pakistan (SECP).

Various studies previously have attempted to probe into the relationship between corporate governance and firm performance in the corporate world across the globe comprising various natures of businesses. The current study strives to investigate the impact of corporate governance on firm performance in the Insurance industry of Pakistan as there is a little or no work on corporate governance in insurance sector in Pakistan. A few studies in insurance sector have been conducted outside Pakistan including Najjar (2012), in his study, investigated the relationship between corporate governance and firm performance in the insurance industry of Bahrain. Najjar (2012) used only return on equity as a measure of financial performance. In comparison, this study employs more financial performance measuring variables including return on assets, market to book ratio, and price earnings ratios along with return on equity by controlling firm size and the leverage ratio. Najjar (2012) found a positive association between firm size and the performance of the insurance companies suggesting that as the size increases the assets are more with the firms in the form of enormous insurance premiums and firms efficiently manage things to an ultimate gain. In their study Wu et al. (2009) found positive relationship of firm size with financial performance as measured by return on assets. Board size showed a negative relation in the past studies as in the study of Wu et al. (2009); they found that board size is negatively associated with the firm performance due to the reason of board's composition of inside as well as outside directors, and inside directors would have relatively high level of information regarding company's internal affairs than outside directors and inside directors would work in their own interest and may confiscate the rights of shareholders and as the number of inside directors increases it makes the performance down. While another study, Larmou and Vafeas (2010) gave a different result that larger board size positively affects the performance justifying in a way that larger board usually comes with a diversified background and qualifications which generates different viewpoints and hence increases quality of managerial decisions. One another very important method to control corporate bodies by reducing agency issues is to separate the CEO from chairman (Ho and Williams, 2003). If these two characters are performed by a single individual, is known as CEO duality. This situation if exists, reduces firm performance as there would be no one to "watch the watchmen" (Zubaidah et al., 2009). Independency of directors yet another variable to reduce confiscation of shareholders' rights as independent directors would work in the best interest of the shareholders. The more the

independent directors in the board, higher will be the performance of the firm (Zubaidah et al., 2009).

The remaining fragments of the study are organized as follows: the next section delineates review of literature regarding the variables of corporate governance and performance measures. Then there comes the methodology section followed by the findings and results with conclusion at the end.

REVIEW OF LITERATURE

Enormous studies empirically investigated the relationship between corporate governance and firm performance covering various types of industries across the globe. As insurance industry is one of the key financial institutions of an economy and it continuously tends to catch attention because of its steady but slow growth in case of Pakistan. Likewise, the issues of governing corporate bodies are raised during practices and normal operating procedures of the businesses, the reason why this study intends to investigate impact of corporate governance on the financial performance of insurance industry of Pakistan. A number of studies used ROE and ROA as a measure of financial performance to check the impact of corporate governance on these variables. Fooladi (2011) found negative relation between CEO duality and firm performance which tells about the fact that if a single person acts as CEO and chairman of the board it will reduce the performance of a firm because chief executive acting as chairman shall not criticize his own choices and decisions neither shall he discredit himself for debacles which leads to diminishing performance of the firm. The study of Bhagat and Bolton (2008) also suggests the same results; they found that separation of the post of chief executive officer from chairman of the board is positively and significantly associated to the firm performance for the reason of chief executive being held accountable to the chairman on shareholders' behalf. Najjar (2012) found that there does not exist any significant association between CEO duality and financial performance (return on equity). Kyereboah-Coleman (2008) in another study also found that CEO duality has negative relationship with the firm performance.

The study explores the association between institutional ownership and firm performance; Chaganti and Damanpour (1991) found that not only outsider institutional ownership has a significant relationship with firm performance but executives' shareholdings adds rigor to it. Duggal and Millar (1999) found similar findings between the two variables with reference to large institutional investors seeking takeover or control for comparatively efficient use of scarce funds than by small institutional investor or ones already in control. A similar result was indicated by Bhattacharya and Graham (2009)

which states that equal voting rights for largest institutional shareholders assert positive effects on firm performance. A few number of more studies elaborating one-way or crossed positive effects between institutional ownership and firm performance include Agrawal and Mandelker (1990), Elyasiani and Jia (2010), Pound (1988), Lin and Fu (2017) and Cornett et al. (2007).

In quest for the association between board size and firm performance, Mak and Kusnadi (2005) studied corporate governance systems of Singapore and Malaysia and provided evidence of negative between the two variables regardless of the country. Cheng et al. (2008) suggest that smaller boards for corporate control are more effective regarding firm performance at the time when corporations face takeover threats but the advocacy gets weaker in the presence of strong anti-takeover laws. Measuring and comparing board size with a number of response variables, Cheng (2008) attributed lower variability in firm performance with larger boards. Further his study suggests that smaller board size is vulnerable to more variability in financial performance measures. In addition to reaching a strongly negative connection between board size and firm performance, Guest (2009) denotes that there does not exist any positive link between the characteristics of board size and firm performance in United Kingdom firms. Eccentric but not unexpected, Larmou and Vafeas (2010) found positive relationship between board size and firm performance stating that market gives promising response to the growing board sizes and vice versa.

Board independence is another imperatively contributory factor towards corporate performance. Müller (2014) provided evidence of strongly positive association between board independence and return on assets. Maintaining a check on rights of shareholders, non-executive directors besides affiliated directors are a crucial part of the board. Fuzi et al. (2016) carried out the study for same motive of important role of independent directors but found a non-constant evidence of stronger association between firm performance and board independence. Along with finding out a reasonably positive link between board independence and firm performance, Rashid (2018) raised a question about dissimilarities among firms regarding board sizes as per institutional needs and asserted that this aspect needs consideration too. Bhagat and Bolton (2008) found surprisingly inverse commitment of board independence with operating performance and made it relevant to the board independence which received corporate governance listing requirements from two largest stock exchanges, that is, New York Stock Exchange (NYSE) and National Association of Securities Dealers Automated Quotation (NASDAQ). Fooladi (2011) found negative relation of leverage with return on assets and positive relation of the same variable with return on equity. Kyereboah-Coleman (2008) also found inverse links between leverage with return on assets stating

inefficiency in usage of borrowed funds by corporations.

RESEARCH METHODOLOGY

Sample data

The study has undertaken a set of 32 insurance companies including life, non-life/general, and reinsurance in Pakistan from 2005-2017 making up 351 firm year observations. Every of the 32 insurance companies has been selected on the criteria that the company is registered with Securities and Exchange Commission of Pakistan, is listed with either of the stock exchanges of the country, has successfully published at least one annual report between the period 2005-2017, is currently operational, and fulfills either of the two conditions (i) is either incorporated as life or non-life insurance company in Pakistan (ii) is currently active member of Insurance Association of Pakistan. Data is collected from Pakistan Stock Exchange (PSX), Lahore Stock Exchange, Business Recorder, financials available on websites of corresponding insurance companies, and from Trading Economics. This study has used ordinary least square method to regress the data collected to fulfill the objective of measuring impact of corporate governance on firm performance.

Model design

In order to measure firm performance, this study uses four different measures viz. Return on Assets (ROA), Return on Equity (ROE), Market to Book ratio (MB ratio), and Price Earnings ratio (PE ratio) and predictor variables Board Size (BS), Institutional Shareholding ratio (ISH ratio), CEO duality (CEOD) and Board Independence as corporate governance variables while Leverage ratio (LEV) and Firm Size (FS) are controlled and included in the model as follows:

$$PERF_{jit} = \beta_0 + BS_{jit}\beta_1 + ISH_{jit}\beta_2 + CEOD_{jit}\beta_3 + ID_{jit}\beta_4 + LEV_{jit}\beta_5 + FS_{jit}\beta_6 + \epsilon$$

Where:

PERF_{jit} = Firm Performance measured by Return on Assets, Return on Equity, Market to Book value ratio, and Price Earnings ratio form firm *j*, *j*th observation at time *t*.

β₀ = the intercept

BS = Board Size

ISH = Institutional Shareholding

CEOD = CEO Duality

ID = Independent Directors

LEV = Leverage Ratio

FS = Firm Size

ε = Stochastic disturbance term, and all the betas are coefficients of rate of change in the variables against one unit increase in a particular variable.

Variables definition

Table 1 enumerates performance indicators embracing return on assets, return on equity, market to book ratio, and price earnings ratio along with predictors comprising board size, institutional shareholding, CEO duality, independent directors, leverage ratio, and firm size.

RESULTS AND DISCUSSION

Table 2 delineates descriptive statistics of all the variables including response variables return on assets, return on equity, market to book ratio, and price earnings ratio. The market to book ratio has a relatively smaller mean value as compared to the other dependent variables which denotes lower market value of the insurance companies. The mean value of return on equity which is 12.791 depicts the picture that insurance companies earn more on equity investment than any other sources of capital structure including long-term debt. Board size shows that on average nearly 11 numbers of directors is part of the board having a standard deviation of 1 member on average in Pakistan's insurance companies. On the average 40.5% of all the issued share of an insurance company are held by institutional investors with a standard deviation of 6.33%. The ratio of CEO duality in the insurance industry of Pakistan is 0.477 (calculated separately) which expresses that on the average there are 47.7% companies where CEO and chairman is the same individual. The mean value of independent or unaffiliated directors, 0.425 tells about the average ratio of board independence in an insurance company in Pakistan. Leverage value of 0.581 shows that on average an insurance company employs 58.1% debt in its capital structure ratio.

Table 3 models summary speaks about the R-square(s), Adjusted R-square(s) and the Durbin-Watson values which tell about the fact that whether or not there is any auto-correlation problem. The calculated values for the models individually tell that there is no auto-correlation problem as all the values fall in the range 1.5 to 2.5. Adjusted R -square of *model 4* with largest value among all models of 0.897 tells that all the covariates explain the model by 89.7%, while the value of *model 3* is smallest 0.722 which explains contribution of predictors about 72.2% towards the model.

Table 4 narrates the individual significance of the four models used in the study. The F-value, a higher favorable, model ROA is 119.139 with p-value of 0.000 tells that the model is highly significant as a p-value closer to zero tells about the strength of significance, while the F-value for model ROE 104.06 with p-value is 0.000 again tells about significance of the model. F-value of model MB is 114.625 and p-value is 0.000 which is

significant and the model PE is also significant as the p-value for that model is 0.000 with highest F-value of 154.076 among all models of financial performance. All the models are significant at 5% level of significance.

Table 5 reports Pearson's correlation coefficients for the Model 1 from Table 4 where the dependent variable is return on assets. Institutional shareholding has the largest coefficient 0.845 which means that it has a strong positive relationship with return on assets. Firm size also has significantly positive relation with the return on assets. Board size unexpectedly showed a very weak relationship with the return on assets, the coefficient is 0.048. CEO duality is another case which has a weak positive relationship with ROA, the coefficient of CEO D and return on assets with a value of 3.4% shows lack of association between the two. The empirical evidence shows that there is negative relation between firms' size, institutional shareholding, leverage and board size either the relations among these variables are not strong. Leverage also have negative but near to zero relation to the firm size. Board independence is also negatively associated to the institutional shareholding.

Table 6 discusses the regression coefficients with the dependent variable return on assets. The results show that all the coefficients are significant except the firm size and CEO duality. Firm size has negative relation with the return on assets which is against the findings of (Najjar, 2012), and (Wu et al., 2009) who found positive association between the two variables. CEO duality has negative impact on the firm performance as measured by return on assets; the results are not significant but are in line with literature (Fooladi, 2011; Bhagat and Bolton, 2008; Kyereboah-Coleman, 2008). While, board size, institutional shareholding, independent directors, and leverage has positive impact on firm performance. There is no multi-collinearity problem with the variables as suggested by the VIF values.

Table 7 demarcates the Pearson's correlation coefficients now taking return on equity as dependent variable. Again consistent with the previous model, institutional shareholding has the largest coefficient which shows a strong relation of institutional shareholding with return on equity. COE duality has the smallest coefficient but has positive association with the return on equity. Board size has negative relation with firm size which can be supported logically only to a certain boundary because smaller firms cannot bear larger boards. Independent directors' ratio is negatively associated to the institutional shareholding but has a weaker relationship. Independent directors also has inverse relation with leverage but weaker too.

The results of some of the variables are now different from the results of the previous model where dependent variable was return on assets. In Table 8, the dependent variable is return on equity, the reason why leverage has become insignificant. Board size, firm size, institutional

Table 1. Proxies of variables.

Acronym	Variable name	Proxies
Performance indicators		
ROA	Return on Assets	Profit Before Tax/Total Assets
ROE	Return on Equity	Earnings Available to Stockholder/Total Equity
MB	Market to Book ratio	Market price Per Share/Book value Per Share
PE	Price Earnings ratio	Market price Per Share/Earning Per Share
Predictors		
BS	Board Size	Number of Directors in the Board of Directors
ISH	Institutional Shareholding	Percentage shares held by Institutional Investors
CEOD	CEO Duality	Dummy variable, equals to 1 if CEO and Chairman is the same person or 0 otherwise.
ID	Independent Directors	The ratio of No. of Independent Directors/Total Number of Directors in the Board of Directors
LEV	Leverage ratio	Total Debt/Total Assets
FS	Firm Size	Natural Log of Total Assets

Table 2. Descriptive statistics.

	Mean	Minimum	Maximum	Std. Deviation
ROA	9.631	-25.638	52.783	5.035
ROE	12.791	-53.859	89.369	6.980
MB	5.134	3.42	7.78	1.456
PE	10.342	8.7	16.6	2.059
BS	10.654	9	12	1.108
FS	16.729	16.179	17.213	0.288
ISH	40.489	31.230	53.930	6.333
CEOD	-	0	1	-
ID	0.425	0.222	0.667	0.091
LEV	0.581	0.399	0.693	0.073

Number of observations: 351.

Table 3. Models summary.

Model	R	R Square	Adjusted R Square	Std. error of the estimate	Durbin-Watson
1. ROA	0.937	0.877	0.870	7.2260	1.913
2. ROE	0.862	0.743	0.728	19.300	1.982
3. MB	0.859	0.738	0.722	0.768	1.907
4. PE	0.950	0.902	0.897	0.662	2.257

Predictors: BS, ISH, CEOD, ID, LEV, FS.

shareholding, and independent directors' ratio are the statistically significant variables. While COE duality and leverage are insignificant but both have positive impact on firm performance. The institutional shareholding has largest beta coefficient of 0.920 which means every 1% increase in institutional shareholding will increase firm performance by 0.920 times of return on equity. CEO duality has negative impact on firm performance which is consistent with the findings of Fooladi (2011), Bhagat and Bolton (2008) and Kyereboah-Coleman (2008). Variance

inflation factor values depict the absence of multi-collinearity problem in the variables.

Consistent with previous models, institutional shareholding ratio has largest coefficient which strong relationship with firm performance. Board size, CEO duality and independent directors' ratio found to have negative but weak relation with firm performance in this model. Independent directors' ratio has negative association with institutional shareholding. Independent directors' ratio is negatively associated to the leverage

Table 4. ANOVA.

Model		Sum of Squares	df	Mean Square	F	Sig.
1. ROA	Regression	37325.507	6	6220.918	119.139	0.000
	Residual	17961.961	344	52.215		
	Total	55287.468	350			
2. ROE	Regression	107706.536	6	17951.089	104.060	0.000
	Residual	59342.408	344	172.507		
	Total	167048.944	350			
3. MB	Regression	405.774	6	67.629	114.625	0.000
	Residual	202.960	344	0.590		
	Total	608.734	350			
4. PE	Regression	405.554	6	67.592	154.076	0.000
	Residual	151.016	344	0.439		
	Total	556.570	350			

Predictors: BS, ISH, CEOD, ID, LEV, FS.

Table 5. Pearson's correlation.

	ROA	BS	FS	ISH	CEOD	ID	LEV
ROA	1						
BS	0.048	1					
FS	0.556	-0.045	1				
ISH	0.845	-0.213	0.391	1			
CEOD	0.034	0.214	0.036	0.092	1		
ID	0.236	0.075	0.707	-0.097	-0.030	1	
LEV	0.441	-0.010	-0.001	0.425	-0.321	-0.153	1

Dependent variable: Return on assets.

Table 6. Coefficients.

Model	Variables	Unstandardized coefficients		Standardized coefficients	t	Sig.	Collinearity statistics	
		Beta	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-179.186	70.247		-2.551	0.012**		
	BS	4.110	0.687	0.227	5.985	0.000*	0.850	1.176
	FS	-0.846	4.625	-0.012	-0.183	0.855	0.278	3.595
	ISH	2.830	0.173	0.895	16.402	0.000*	0.413	2.424
	CEOD	-2.251	1.620	-0.056	-1.390	0.168***	0.746	1.341
	ID	71.957	13.321	0.327	5.402	0.000*	0.334	2.993
	LEV	26.023	12.163	0.095	2.140	0.035**	0.620	1.613

Dependent variable: Return on assets. *, **, *** show 1%, 5% and 10% significance level respectively.

ratio also. Firm size has strong positive relation with independent directors' ratio; the correlation coefficient between these two variables is 0.770 (Table 9).

In Table 10 dependent variable is market to book ratio. In this model firm size, CEO duality and leverage have significantly negative impact on firm performance where firm size have a comparatively unexpected sign of

relation as compared to the finds of (Najjar, 2012). Negative coefficient of firm size -0.927 means every unit increase in firm size will lead to -0.927 times decrease in firm performance. Variables board size, institutional shareholding and independent directors' ratio have positive and significant impact on firm performance. The results are consistent with the findings of Larmou and

Table 7. Pearson's correlations.

	ROE	BS	FS	ISH	CEOD	ID	LEV
ROE	1						
BS	0.053	1					
FS	0.485	-0.045	1				
ISH	0.739	-0.213	0.391	1			
CEOD	0.019	0.214	0.036	0.092	1		
ID	0.289	0.075	0.707	-0.097	-0.030	1	
LEV	0.371	-0.010	-0.001	0.425	-0.321	-0.153	1

Table 8. Coefficients.

Model		Unstandardized coefficients		Standardized coefficients	t	Sig.	Collinearity statistics	
		Beta	Std. error	Beta			Tolerance	VIF
2	(Constant)	138.509	187.627		0.738	0.462		
	BS	7.156	1.834	0.214	3.902	0.000*	0.850	1.176
	FS	-31.181	12.354	-0.243	-2.524	0.013**	0.278	3.595
	ISH	5.379	0.461	0.921	11.672	0.000*	0.413	2.424
	CEOD	-5.480	4.326	-0.074	-1.267	0.208***	0.746	1.341
	ID	218.285	35.581	0.538	6.135	0.000*	0.334	2.993
	LEV	20.272	32.486	0.040	0.624	0.534	0.620	1.613

Dependent variable: Return on equity. *, **, *** show 1%, 5% and 10% significance level respectively.

Table 9. Correlations.

	MB	BS	FS	ISH	CEOD	ID	LEV
MB	1						
BS	-0.041	1					
FS	0.005	-0.045	1				
ISH	0.624	-0.213	0.391	1			
CEOD	-0.224	0.214	0.036	0.092	1		
ID	-0.031	0.075	0.770	-0.097	-0.030	1	
LEV	0.375	-0.010	-0.001	0.425	-0.321	-0.153	1

Vafeas (2010) regarding board size, (Chaganti and Damanpour, 1991; Bhattacharya and Graham, 2009; Cornett et al., 2007) for institutional ownership, and (Müller, 2014) for board independence. Variance inflation factor values show that there is no multi-collinearity enigma.

In Table 11, dependent variable is price earnings ratio and it shows the Pearson's correlation coefficients. Inconsistent with the previous models, Institutional Shareholding has negative and strong relationship with Price Earnings ratio. In this model, leverage also has strong negative relationship with firm performance whereas firm size, institutional shareholding, and leverage are negatively associated with board size. But only the leverage has negative relation with firm size, CEO duality and independent directors' ratio.

Independent directors' ratio has strongly positive relationship of 0.707 with firm size.

In Table 12 all the independent variables are significant except for board size, the only variable which is insignificant but is negatively associated to the firm performance. This is also consistent with previous literature. Values of variance inflation factor tell about the absence of multi-collinearity in the variables.

CONCLUSIONS AND IMPLICATIONS

Corporate governance plays an imperative role in the performance of insurance companies. There are different statutory bodies in different countries which control and ensure implementation of best practices with true letter

Table 10. Coefficients.

Model		Unstandardized coefficients		Standardized coefficients	t	Sig.	Collinearity statistics	
		Beta	Std. error	Beta			Tolerance	VIF
3	(Constant)	67.237	7.464		9.008	0.000*		
	BS	0.259	0.073	0.197	3.554	0.001*	0.850	1.176
	FS	-4.692	0.491	-0.927	-9.547	0.000*	0.278	3.595
	ISH	0.274	0.018	1.190	14.924	0.000*	0.413	2.424
	CEOD	-1.068	0.172	-0.368	-6.207	0.000*	0.746	1.341
	ID	11.062	1.416	0.692	7.814	0.000*	0.334	2.993
	LEV	-2.815	1.292	-0.142	-2.179	0.032**	0.620	1.613

Dependent variable: Market to book ratio. *, **, *** show 1%, 5% and 10% significance level respectively.

Table 11. Pearson's correlations.

	PE	BS	FS	ISH	CEOD	ID	LEV
PE	1						
BS	0.053	1					
FS	0.406	-0.045	1				
ISH	-0.582	-0.213	0.391	1			
CEOD	-0.105	0.214	0.036	0.092	1.0		
ID	0.668	0.075	0.707	-0.097	-0.030	1	
LEV	-0.575	-0.010	-0.001	0.425	-0.321	-0.153	1

Table 12. Coefficients.

Model		Unstandardized coefficients		Standardized coefficients	t	Sig.	Collinearity statistics	
		Beta	Std. error	Beta			Tolerance	VIF
4	(Constant)	-38.348	6.439		-5.956	0.000*		
	BS	-0.072	0.063	-0.039	-1.146	0.255	0.850	1.176
	FS	3.676	0.424	0.514	8.670	0.000*	0.278	3.595
	ISH	-0.200	0.016	-0.615	-12.633	0.000*	0.413	2.424
	CEOD	-0.657	0.148	-0.160	-4.425	0.000*	0.746	1.341
	ID	4.346	1.221	0.192	3.559	0.001**	0.334	2.993
	LEV	-9.439	1.115	-0.336	-8.467	0.000*	0.620	1.613

Dependent variable: Price earnings ratio. *, **, *** show 1%, 5% and 10% significance level respectively.

and spirit in the corporations like in Pakistan Securities and Exchange Commission of Pakistan, and Insurance Association of Pakistan regulate and monitor controlling mechanisms in the form of Code of Corporate Governance in insurance companies listed and incorporated in Pakistan. This study finds that board size, institutional shareholding and independent directors' ratio have positive and significant impact on corporate governance. The reasons are if board size is large, the board has members having diverse background, more viewpoints, and competitive and experienced individuals which lead towards right decision making and towards

better performance as compared to the industry norms. Institutional investors have more interest in the investment and management skills which adds to the performance of the firm. The more the independent directors in the board, the more the transparency and integrity which ultimately leads towards enhanced performance. CEO duality have negative impact on the firm performance throughout all models due to reason that inefficiencies and mismanagement in the operations is not watched by any independent person which make the performance of the company worse. The study also finds that firm size and leverage also have a mixed

impact on firm performance. As the size of the firm increases due to the reason of non-efficient usage of resources it puts worse impact on the financial performance of the firm. Reason of direct association between leverage and both accounting measures might be right mix of capital structure to create short-term revenues but failure to grow share price is the reason of negative association with the market measures. For the future research, scholars may increase sample size to get more generalized results and there should be included more corporate governance variables like family ownership, concentration, directors' remuneration, audit quality, and many others.

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