Corporate Governance and Firm's Exporting Decision: Evidence from Pakistan Stock Exchange.

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CERTIFICATE OF APPROVAL

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This is to certify that Mr. Ahmed Hassan Kanju has incorporated all observations, suggestions and comments made by the external evaluators as well as the internal examiners and thesis supervisor. The title of his Thesis is: Corporate governance and Firm's exporting decision: Evidence from Pakistan Stock Exchange.

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Dedication

Dedicated from core of my heart to my beloved parents Mr. & Mrs. Mian Shauket Javed Kanju

and my adorable and very supportive sisters.

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Corporate Governance and Firm's Exporting Decision: Evidence from Pakistan Stock Exchange.

ABSTRACT

The study is focused to check the effect of ownership structure and corporate governance on firm's exporting decision. A set of 100 non-financial listed companies were selected from Pakistan Stock Exchange. The data were collected from annual reports of selected companies from year 2005 to 2014. Ownership structure is measured by managerial ownership and institutional ownership, corporate governance is measured by board size and by independent directors in board of directors. Exporting decision of firm is measured by export intensity. Panel data regression model is being applied for analysis and fixed effect model is applied. Results indicate a significant and positive relationship between firm's exporting decisions and corporate governance but not significant with ownership structure.

Key Words: *Export intensity, Managerial ownership, Institutional ownership and Corporate Governance.*

Chapter 01

INTRODUCTION

1.1   Background of the study

For many decades due to globalization, the internationalization of business activities has been broadly researched phenomenon in developed countries as well as developing countries. Internationalization of business operations incorporates extensive variety of procedures and measures which include licensing, franchising, foreign direct investment and global outsourcing etc. Globalization creates rapid growth in demand and supply across boundaries which ultimately increase the internationalization of firm's activities in transition economies like India, China and Eastern European nations. Swapping good and services across borders has been playing very vital role and became a dominant approach of international market participation as a number of studies in past suggests that by participating in foreign markets improves firm's performance, profitability and long run existence scenarios (Greenaway, Guariglia, and Kneller, 2007; Park et al., 2010).

Encouraging the internationalization of business activities has been eye-catching strategy in many countries, specifically transition economies as well as developing economies (Buck et al., 2000) which has been done usually via exports. Next example is the exemplary case of export-led improvement achievements of the countries which are also known as Asian Tigers (World Bank, 1993).

Involvement in international markets is often witnessed as suitable for economic growth, in progressing economies particularly, as endorsed by a number of cross-country studies at a broad level, which states that there is a positive relationship among economic development and across the boundaries trade (Frankel and Romer, 1999). So on the basis of such evidence one can say that the wish to boost export sales is not limited through developing and transition economies.

Bearing in mind that extension to the international market places offers many benefits to firms, so someone can raise a question which is why all firms of the country did not participate in across the boundaries business activities. One potential reason is that by expanding into international market sectors for the very first time contains very large fixed cost as well as sunk start-up costs, and a significant threat and doubt (Roberts and Tybout, 1997; Jensen and Bernard, 2004; Caggese and Cunat, 2013).

Some recent developments in international trade theory have used a blend of all these start-up costs and heterogeneity in productivity in order to clarify the discrepancies in across the boundaries business's activity decisions (Bernard et al., 2003; Melitz, 2003; Bernard and Jensen, 2004). In an identical vein, following a founding empirical work of Greenway, Guariglia, and Kneller (2007) and a lots of recent researches show how financial factors affect exporting decision of a firm (Berman and Hricourt, 2010; Zhu and Minetti, 2011; Caggese and Cunat, 2013).

Corporate governance incorporates the processes of controlling organization. It helps to overcome agency problem (Daily & Dalton, 2003). In simple words when managers start working for their own interest instead of what shareholders want is known as agency problem. To overcome and control this dilemma corporate governance plays a vital role. Corporate governance enhances effectiveness, efficiency and profitability of firm (Boubakri, Cosset & Guedhami, 2004). However, good governance is also required to attract more investors as poor governance limits the outsider investors (Khow, Stulz & Warnock, 2008). Firm's exporting decision is one of the strategic decisions which are the integral part of corporate governance. However, this study further explains the relation of corporate governance and firm's exporting decisions.

A large number of empirical studies explored the impact of managerial incentives and corporate governance mechanisms on performance of the firm and some other tools of corporate governance which includes research and development and investment in physical assets. The interest alignment hypothesis of Jensson and Meckling (1976) suggests that managerial ownership along managerial incentives with shareholders interest is the only ingredient which provides incentives to top management in order to undertake some risky projects or investments and make such decisions which maximize the wealth of shareholder. Amihud and Lev (1981) & May (1995) proposed a counter argument and suggests that when shares holding of managers become large then managers avoid risky investment and opt those projects or policies which reduces the idiosyncratic risk of the firm at the expense of interest of shareholder. With managerial incentives some other related variables of corporate governance such as institutional ownership or board structure also shown some impact on firm exporting behavior.

According to Doidgea, Karolyi and Stulzb (2005) corporate governance has different impact across different countries and different firms. The Securities and Exchange Commission of Pakistan, since it took over the responsibilities and powers of the Corporate Law Authority in 1999 has been acutely alive to the changes taking place in the international business environment, which directly and indirectly impact local businesses. As part of its multidimensional strategy to enable Pakistan's corporate sector meet the challenges raised by the changing global business scenario and to build capacity, the SECP has focused, in part, on encouraging businesses to adopt good corporate governance practices. This is expected to provide transparency and accountability in the corporate sector and to safeguard the interests of stakeholders, including protection of minority shareholders' rights and strict audit compliance. In Pakistan governance reforms took place in 2002 which motivates organization to promote corporate governance. Better governed firms must enhance, motivates and increases the interest of the board and management, it also improves monitoring, controlling and efficiency of the firm. It also increases the confidence of the investors and performance of the firm. However, corporate governance in Pakistan is still not in its best form as compared to other emerging economies.

1.1.2 International Trading Environment in Pakistan

During last ten years from 2005 to 2014, Pakistan exports recorded very bouncing and rapid growth. In 2004 total exports of Pakistan were US$ 12,313 billion which becomes US$

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23,667 billion in 2014 as shown in the table 1.1. In 2015 Pakistan's exports are showing negative growth as there is a declining trend. International trade without any quota system has started since few years and it has created opportunities for developing countries to export without any restriction. Neighboring countries like India, Srilanka and Bangladesh doubled their exports but unfortunately Pakistan didn't took advantage of restriction free trade across boundaries.

Table 1.1: Year Wise Exports

Year	Exports(US$ billion)
2004	12313
2005	14391
2006	16451
2007	16976
2008	19052
2009	17688
2010	19290
2011	24810
2012	23624
2013	24460
2014	25110
2015	23667

However, it is also observed that since last couple of year's sluggish progress of global economy has also affected exports of countries especially regional countries like Pakistan and

India. India's exports declined by 17.2% in 2014 as compared to 1.3% decline in 2013. On the other hand the major sector of Pakistan's export which is textile sector as it has 60 % share in total exports is majorly affected by tough competition given by Bangaladesh.

Generalized Scheme of Preferences (GSP) Plus status has been given to Pakistan in 2013 by European Union (EU). This status actually enables duty free textile exports to all 27 states of EU till 2017. During this period due to lack of planning Pakistan's textile exports could made significant growth as it grew US$ 6.21 billion to US$ 7.54 billion which is only 21.5% but Bangladesh's textile exports were significantly increased by 38%.

The major sectors of Pakistan's exports are food related commodities which is 24%. This sector includes export of food related commodities like rice, wheat, sugar etc. Textile industry has also very big contributor in exports of Pakistan. Table 1.2 shows the sector wise contribution in total exports of Pakistan. Mineral fuels and manufacturing goods are contributing 19% each in total exports while other sectors food, crude material, chemical, machinery and miscellaneous are contributing 24%, 11%, 11%, 8%, 8% respectively

Table 1.2: Sector Wise Exports

Sector	Percentage
Mineral Fuels	19
Manufactured Goods	19
Food	24
Crude Materials	11

Chemicals	11
Machinery	8
Miscellaneous	8
Total	100

1.2. Theoretical Background

This section has two things. First one is the relevant theories which were discussed in detail then justification of topic i-e the relationship between Corporate Governance and Firm's exporting decision will proceed.

1.2.1 Agency Theory

In last few decades world has seen many recessions. Therefore, corporate governance gets more importance and attention. In many past researches importance of corporate governance related to firm's outcome and performance is analyzed. However, very few researches show the relation of corporate governance and firm's exporting decisions. Corporate governance has influence on internal management. If the control on internal management is weak then it promotes agency problem in the firm.

This relation of corporate governance and firm's exporting decisions has theoretical support of different theories like "*agency theory*" and "*International trade Theory*". Agency theory Jenson and Meckling (1973) or principle agent problem arises when managers start

exploiting the rights of shareholders by focusing on their own interest rather than shareholders. Many researches show that corporate governance minimized agency problem and individual as well as institutional investor always prefer well governed firm. However, institutional and managerial ownership also mitigates the agency problem as they have to protect their investment and control.

1.3. Problem Statement

The purposes of this research it to identify a relationship between corporate governance and firm's exporting decision. The literature on international trade has mostly ignored the effects of managerial ownership and other tools of corporate governance on exporting decisions of firm, which has revealed that above mentioned variables significantly affecting some other features of firm's performance in the literature of business finance. An enormous number of theoretical and empirical studies studied the effects of ownership structure and corporate governance tools on several types of business decisions which include investment in fixed asset or physical assets and in new research and development (R&D).

In Pakistan very few researches have ever been done which explains the importance of corporate governance and its impact on exporting behavior. Moreover, literature is weaker on relation with ownership structure. To elaborate its importance and to fulfill the gap this research is conducted. Therefore, the finding of this research will play very significant role in the literature as well as in Pakistan's corporate sector.

1.4.   Research Question

This study attempts to address a generic question that whether the corporate governance affect or influence the firm's exporting behavior. In order to examine the relationship the following question is formulated

- What is the impact of corporate governance on Pakistani listed firm's exporting decision.
- What is the impact of ownership structure on Pakistani listed firm's exporting decision.

1.5.   Research Objective

The main objective of this study is as following.

- To determine the relationship between board independence and export intensity of Pakistani listed firms.
- To determine the relationship between board size and export intensity of Pakistani listed firms.
- To determine the relationship between managerial ownership and export intensity of Pakistani listed firms.
- To determine the relationship between institutional ownership and export intensity of Pakistani listed firms.

1.6.   Significance of the Study

This study not only provides valuable information to the manager and academicians but also very helpful for regulatory bodies to understand the role of ownership structure and corporate governance in exporting decision of firms. First of all, this study will help managers to understand factors affecting exporting decision.

This study will contribute significantly to the body of knowledge by explaining the relationship of managerial ownership and corporate governance on export intensity of PSX listed companies. A number of different researches have already been done on this particular topic for instance, Dixon, Guariglia Vijayakumaran (2015) in China. However, in different regions and economies the standards of corporate governance and ownership structure are different. This study is conducted on 100 listed firms and also according to the limited standards of corporate governance in Pakistan as compared to the other emerged economies.

This study will also contribute in the literature of exporting decision by including mechanisms of corporate governance as new components, with the determination of improved description and thorough explanation of factors or elements which affects firm's export intensity. This study will also contribute to the body of ownership structure specifically managerial incentives, in context of exporting decisions of firms in emerging and developing economies.

1.7.   Organization of the Study

The first chapter talks about detailed introduction of topic and detailed literature review will proceed in second chapter. The further study approaches the following manner. Third chapter is comprises of methodology and fourth chapter elaborates results and descriptive statistics. Fifth chapter concludes and gives recommendations. All the references are mentioned at the end of the document.

Chapter 02

LITERATURE REVIEW

2.1   Brief Review of Literature

This section of study includes the review of literature on agency theory and impact of managerial decisions on firm's decisions to participate in foreign market and to develop testable hypothesis. As discussed in chapter 01, that the trade across boundaries has been made significant development in explaining the firm's exporting behavior and decisions of participating in international market. There are certain some factors which plays very vital role to determine these exporting decisions such as sunk cost, developing new market channels, new product development according to the taste of foreign customers, and market research on international markets and to deal with laws and procedures of host country (Greenaway and Kneller, 2007). So to deal with above problems one can only say that only large and heavy profits making firms can go to international market to get enough profits and to minimize start up as well as sunk costs.

Yet on the other hand, it is also observed that the literature on firm's exporting decisions has widely ignored the other important factors like ownership structure of firm and components of corporate governance and its characteristics, which are universal in each and feature of any firm like financing and investing decisions of firms (Jensen and Meckling, 1976; Fama 1980; Fama and Jensen, 1983; Shleifer and Vishny, 1997). Entering in international market is also one of the financing and investing decision of the firm because it requires a large amount of funds in

account of sunk cost. On the other hand one can say that this type of investment is also known as investment in intangible assets Melitz (2003). The sunk cost is another name of uncertainty and risk (Dixit, 1989; Roberts and Tybout, 1997) which includes a probability of bankruptcy or bankruptcy risk (Caggese and Cunat, 2013).

Sunk cost and bankruptcy risk reflects that there is a complexity as well as asymmetry of information between mangers of firm and shareholders (Morck and Yeung, 1991), and also between lenders and firms (Caggese and Cunat, 2013). So in the light of relationship between investment decision and exporting decision, there are some arguments by researchers. Researchers argued that there are a significant impact of managerial incentives and corporate governance characteristics on the corporate investment, so this means that difference in managerial incentives and in corporate governance can be observed or may be leads to the difference in exporting behavior of firm. So it is very possible that those firms which have strong and healthy corporate governance structures are able to participate in international trade or can engage it in across the boundaries activities. On the other hand weak governance structure prevents top managers from entering in international or foreign trade. Therefore, by investigating how issues in governance and ownership structure of firm effects firm's exporting decisions, new dimension of corporate governance is added to the theory of international trade.

Only a very limited number of researchers documented the relation between corporate governance and exporting decisions of firm. Examples of such studies are (Hobdari, Gregoric, and Sinani, 2011) who examined the Estonian and Slovenian firms and found that those firms exports more which are fully under control of managers, and those firms exports less which are

control by state. Along same lines another study by Filatotchev, Isachenkova, and Mickiewicz (2007) analyzed that independence of managers and foreign shareholders has positive impact of exporting decisions in Hungarian and Polish firms (Buck et al., 2000; Filatotchev et al., 2001). Filatotchev, Stephan, and Jindra (2008) concluded in their study that independence of manager as well as ownership of manager simply improves the intensity on firms especially in emerging economies. Moreover, Calabro, Mussolino, and Hus (2009) and Calabro and Mussolino, (2013) shows that in Norway there is an important impact of board characteristics on exporting decisions of family owned business.

There are only a limited number of studies that focused on relationships between exporting decision and corporate governance in the environment of China. (Lu, Xu, and Liu, 2009) researched on listed firms of china over period of 4 years from 2002 to 2005 and found that Chief Executive officer's share in possession and the percentage of outside members of board has positive relationship with exporting decisions of firms while on the other hand concentration of ownership has negative relationship. (Fu, Wu and Tang, 2010) researched on Chinese non listed firms from the year 1999 to 2003 and found that those firms who are in joint ventures with foreign firms or firms which are wholly owned by foreign investors have higher exports as compared to domestic firms or those firms which are joint ventures with foreign firms but with domestic control. (Yi, 2014) and (Yi and Wang, 2012) used data of 30,000 Chinese firms of 3 years from 2001 to 2003 and found that foreign shareholders has positive relationship with exporting behavior especially in the case of small and medium enterprises.

Sometime a situation arises when there is a lack of perfectly observation by shareholders to the investment opportunities and managerial actions so this situation leads to incomplete contract between choices of policies and managers. So to solve or overcome this problem the only way is to motivate managers by giving incentives in form of equity (Jenson and Meckling, 1976). This type of ownership or incentive resolves or minimizes the moral hazards of managers by aligning the interest of shareholders with the interest of managers. Later on Agarwal and Mandelker (1987) said in their research that by giving equity to motivate managers to make valuable investment strategies and also in order to get their interest aligned with the interest of shareholders is the ultimate solution to reduce agency problem. On the similar line Denis and Sarin, (1997) argued that there is a positive and significant relationship among managerial stock ownership and decisions making for value maximization of shareholders wealth. Recently Coles, Daniel and Naveen (2006) stated that those managers who had equity options with incentives tend to make more risky investments in projects as well as in research and development as compared to those managers who had no equity options.

Though these are USA based researches but their findings and results are possible to apply to Pakistani case as well as Chinese. Lin, Ma and Su (2009) confirmed in their study that firm's efficiency and performance is positive associated with managerial ownership. It is also confirmed by using data from the year 2007 to 2008 of 985 listed firms of China Liu, Uchida and Yang (2012) that there is a positive and significant relationship among firm's performance and managerial ownership.

In literature, there are some counter arguments against positive and significant relationship among managerial ownership and profitability of firm. One counter argument (Amihud and Lev, 1981; May, 1995) is that managerial ownership is helpful in increasing the value of shareholder's wealth but to the certain level. When this certain level meets then managers become risk averse and they get started by engaging themselves in risk sinking or less riskier activities by implementing those financing and investing policy choices which leads to the decrease in idiosyncratic risk of firm at the cost of stakeholder's concern. John, Litov & Yeung, (2008) also present a counter argument that the manager who had large ownership in equity and stocks of firms may select conservative policies in context of investment. Even he /she can ignore those risky projects which have high positive NPV (Net Present Value).

Moreover, La Porta Silanes and Shleifer (1999) argued that when ownership of managers reaches at verge or at a threshold, then further increase will made manager entrenched, this may cause to corruption and exploitation of interest of shareholder, instead of opting value increasing projects. Another study based on USA listed firms data, Morch, Shleifer and Vishny(1988) suggested a non-monotonic relationship between firm performance and manager's shareholding on the basis of empirical evidence. They used a linear model known as piecewise. According to this direct model they establish that when ownership of managers touches 5% then advance increase effects in greater performance of firm or firm value of firm (increase in Tobin's Q), however, when managerial ownership is between 6% to 25% then further increase effects negatively on firm performance and value as managers become risk averse and finally there is a very slightly increase in firm performance as well as firm value if insider ownership increases from 25%. Reasons and logics given by Morck, Shleifer, and Vishny (1988) for above

mentioned relationship is managers are human beings and they have a normal intensity to pamper their own priorities and preferences on the cost of shareholders. The result of this study is consistent with Jensen and Mickling's, (1976) hypothesis that if an increase in ownership at lower levels of managerial shareholding then managers align their interests with the interests of shareholders or investors and they really work hard to generate profits and to maximize firm profitability as well as shareholders value. This study also suggests that increasing insider ownership is not only gives rights to managers to claim in profit but on the other hand they also raise their controls like voting rights and defending them from other punishing powers which make them engrained.

Moving further in review of literature, there are some studies which investigated to which extent the managerial shareholding effects Pakistani listed firm's decisions to participate in exports or in international trade. So in this study there is a expectation of alignment with other studies that to a certain point or percentage of managerial shareholding is better for firm but after that certain point or threshold further increase in managerial shareholding may have negative relationship due to agency problems.

This study next examines the ownership types and there is a review of literature on ownership structure of a firm. In particular this study will focus on the only two components of ownership structure which is managerial ownership and other one is institutional ownership.

Institutional ownership in Pakistan is represented by ownership of local institutions such as banks, mutual funds, insurance companies and government agencies. Too many studies

contributed in the literature of institutional ownership and suggested that institutional ownership is beneficial for firm because they have large stake in the firm so they monitor manager's policies and course of actions in order to improve and enhance profitability or performance of firm (Cornett et al., 2007). Institutional investors can also support managers to opt risky projects which also include exporting decisions (George and Prabhu, 2000).

Due to larger stake of institutional investors their influence is also on firm's strategies through private and public engagement (Tihanyi et al., 2003). In general, the institutional investors remain present for longer time period so their longer tenure leads to the adoption of longer investment prospects. So this longer tenure lessons the conservative investments and leads towards higher efficiency of investments. In particular case of listed firms in China, limited number of studies shows that institutional ownership has positive and significant relationship with performance of firm because institutional owners have diverse and different professional backgrounds and on the other hand they are also the largest shareholders of the business (Sun and Tong, 2003). Another study is done in China on 1200 listed firms by Yuan, Xiao and Zou, (2008) which recorded a positive and significant impact of institutional ownership on firm's performance.

Institutional ownership in firm's stock also increases the performance of the firm as well as of the shares as small time investors follow institutions. Another reason is for institutional ownership is that it enhances the governance and financial processes that attracts more investors. As discussed by Javed and Iqbal (2007) better ownership means better firm performance as they are long term investors and always concerned about the firms they have invested their stakes in.

Institutional owners bring either negative or positive changes in any strategic decision making of the firm (Hoskisson, Hitt, Johnson & Grossman, 2002). Institutional ownership has a strong impact on strategic decision making of the firm (Ozer, Alakent, & Ahsan, 2010). A study done by Ullah, Fida and Khan (2012) further explains that all the firms having institutional owners and foreign investor have higher dividend payout which leads company to acquire fewer opportunities. Another study done by Afza and Mirza (2010) shows that dividend policy is significantly influenced by ownership structure of the firm. However, this same study further elaborates that institutional ownership prefer less dividend paying firm and also control agency problem and minimizes the agency cost. Therefore, it is understandable that institutional ownership affects both firm's performance and its strategic decision making in different ways at the same time. However, this study focuses on the effect of corporate governance and institutional ownership on each other.

In this study the relation of exporting decision behavior of firm and institutional ownership is analyzed. It is assumed that it is a two ways process, not just corporate governance affects institutional ownership however; institutional ownership also has a strong impact on corporate governance thus, there is possibility of endogeneity issue. According to Najjar (2009) corporate governance and institutional investors share strong positive relationship. Ferreiraa and Matos (2008) found that all the institutional investors preferred better governed firms as it has ability to perform better. Study on corporate governance also shows that larger number of owners offer better governance in the firm (Dharwadkar, Goranova, Brandes, & Khan, 2008). However, institutional investors furthermore decrease the monitoring cost of the firm for all

investors and that lead towards better control of managers and implement good governance as well (Gillan & Starks, 2003).

It is also derived that institutional ownership not just affect corporate governance policies however, it also works like corporate governance and minimizes the agency cost of the firm (Gul, Sajid, & Afzal, 2012). Moreover, Crutchleya, Jensena, Jahera, and Raymond (1997) also shows the same finding that institutional ownership decreased the agency cost and enhances the governance mechanisms of the firm. Institutional ownership enhances the corporate governance as it pressurized the manager to perform effectively, responsibly and efficiently (Elyasiani & Jia, 2009). Moreover, institutional owners use their rights of ownership to inspire managers to work in the interest of investors (Cornett, Saunders & Tehranian, 2007). Therefore, institutional ownership share strong relation with corporate governance and also works in same domains.

Institutional owners always try to create close relations with its managers. Many past researches have shown that institutional owner give incentive to the risk averse managers (Aghion, Reene & Zingales, 2007). Institutional ownership further minimizes the misreporting, as it enhances monitoring and control in the firm (Burns, Kedia & Lipson, 2010). Accordingly, a study done by Chen, Dub, Li, and Ouyang (2012) also shows that institutional ownership also increases the liquidity of the firm and also increases its returns. That also shows that institutional ownership and corporate governance both enhances not just management but also the performance of the company.

However, in Pakistan institutional ownership is just started to grow its roots. Most recently, Afza and Mirza (2011) discussed that in Pakistan institutional investors are improving the performance of companies which increases the firm value and investor's confidence. In Pakistan so far only majority shareholders have right to take legal actions against managers. If the shareholder have less than 20% share than it has no power to apply in court for legal actions (Ibrahim 2005). In Pakistan mostly market is dominant by family oriented businesses which mean companies are not just controlled by shareholders but also governed by shareholder.

Therefore, it is really important to find out how institutional ownership effect corporate governance in the emerging and unpredictable market like Pakistan. A study conducted by Duggal and Miller 1999 shows that there is no significant relation exist in institutional ownership and corporate control. Another study represents the negative relationship between institutional ownership and financial reporting (Burns, Kedia & Lipson, 2006). Hence, it shows that there is possibility of different results in different markets as ownership structure is different.

However, study done by Hasan and Butt (2009) shows that corporate governance and ownership structure has a strong and significant implications on financial decision making. This study elaborates that ownership structure has same impact on financial structure identical to corporate governance. Though, the standards of corporate governance are not followed in true manners in Pakistan. The study also shows that ownership structure plays an important role company's capital structure and financial policies.

However, the implication or the impact of ownership structure is not always plays positive role or enhance the good financial policies in the firm and control agency problem. As the study conducted by Stouraitis and Wu (2004) showed the findings that institutional ownership is very sensitive as they have larger stakes in the firms. These investors are always willing to create and maintain good relationship with manager. Therefore, they misuse their voting rights and choose manager of their own choice. This type of behavior leads the firm towards bad performance and agency problems.

Hence, the role of ownership structure plays very important part in any kind of firm decisions and performance. Thus, there are also some aspects and important decisions that affects institutional investors and corporate governance as well. Anyhow, to actually understand the relationship between corporate governance and institutional ownership it's very important to choose some exogenous variables as well. These variables impact the model however, not getting influenced by the model. Corporate governance and institutional ownership are treated as an endogenous variable and both of these variables affect each other's performance. All these aspects show the importance of this study and its scope in future, which make this study very interesting.

Therefore, to understand the impact of corporate governance on institutional ownership and their relationship this study has been conducted. In this study to understand the role of institutional ownership and its relation with corporate governance only four types of institutions are analyzed which are insurance companies, banks, mutual funds and financial institutes as Pakistan's market is not that matured and mostly firms are family owned. In family owned

businesses mostly shares are controlled by family members and very little rights are given to the outsiders that lead to violate the rights of shareholders and also increases the risk for the investors. Thus, only few types of institutions are taking part.

In counter argument, some researchers gave empirical evidence that institutional owners likes banks insurance companies and mutual funds are often hold partial or full ownership in different level of firm which ultimately leads to or which may ignite agency problems that in return it may be imply that lessor value maximizing and risky investment decisions. On similar lines (Wei, Xie and Zhang, 2005) documented a negative relationship among firm performance and institutional ownership which is dignified by Tobin's Q. so from the above counter arguments one cannot decide or predict the relationship or effect of institutional ownership and/on exporting decisions of any firm.

Literature has also identifies some other type of ownerships and one of them is shares held by foreign investors. Foreign investors may include individual or it may be institutional investors. Literature justified that participation on foreign investor on board of domestics firm can increase the probability of expanding firms activities across boundaries. There are five mechanisms mainly which illuminate this valuation. First one firm's have foreign investor on their floor are more likely to implement worldwide accepted standards of business practices and corporate governance, which can make easy for firm to enter in foreign markets (Jakson and Strange, 2008). Second one is, those firms which are exporting they possess state of the art and most advanced technology, skills and competences, brands names and distribution networks in markets, which can simply provide a competitive advantage to others in foreign markets. Third

one is, as international or foreign investor has usually a well-managed portfolios and excellent skills of monitoring so they are more likely to inspire firms to participate in risky projects and ventures such as exporting to other countries (Filatotchev, Isachenkova and Mickiewicz, 2007). On the fourth number, foreign shareholder are added some extra pressure on board of members to employ well qualified and experienced chief executive managers who had some international experience also. So this type of CEO may favor the firm in across the boundaries activities of firm. Finally on the fifth number, multinational firms often goes to transition economies like China and use it as a platform to serve their domestic or international market (Fu, Wu and Tang, 2010) and this research also recorded a positive relationship between ownership of foreign shareholders and intensity of export sales. It also suggests that those firms which are fully or partially owned by foreign investors have higher percentage of export intensity as compared to other firms that are with domestic or local control. Similarly another researches (Yi, 2014; Yi and Wang, 2012) uses a data of 30,000 Chinese listed firms form the period of 3 years from 2001 to 2003 and found that overseas ownership is positively linked with firm's exporting decisions especially in a case of small and medium enterprises.

There are some old-fashioned arguments (Fama, 1980; Fama and Jensen, 1983; Jensen, 1993) and recent development in economic theories of corporate governance and board of directors (Raheja, 2005; Haris and Raviv, 2008) and some other number of studies claims that BOD are very helpful in resolving management and governance issues that are inherent in firm. In fact board of directors has ultimate power of firing and hiring, performance based evaluation and compensation of top management of the firm controls their behavior of value maximizing. Though it is anticipated that board of directors can reduce agency cost which is linked with the

partition of control and ownership and improving the firm performance and, subsequently wealth of shareholder. In this regard in most of the countries, their corporate law obliges that firm should be controlled by board of directors. Here one question is arises that how composition and size of board are effective in reducing agency problem in order to improve firm performance.

On the other hand, size of the board plays a very vital role and this is a very important mechanism among other mechanisms of corporate governance as it affects the ability of board to guide and monitor. Monks and Minow (2004) also suggest in their research that larger numbers of board members are further able to make more energy and time in order to preside and give direction to management, monitoring by board improves the worth of managerial decision making increases which indications to the excellent performance of firm and value of firm also.

A study conducted by Boonea, Field, Karpoff, and Raheja (2007) proves that board size is positively related to the firm growth and performance. Institutional owner always prefer a well-organized board as board is their eyes in the organization. Investor control organization with the help of board. Therefore, institutional investors always concerned about board size as it works as a bridge and also takes care of their interests.

For that reason, it is really important to make a good and efficient board. More members does not mean it will perform better, large group can increase agency problem as there are more members means more diverse opinion (Yasser, Entebang & Mansor, 2011). However, it depends on information and the role of duties and if the monitoring of information demands more

members on board in larger firms than larger board size is preferably more important (Sanders, and Carpenter, 1998).

As Adams and Mehran (2003) claims on the basis of empirical evidence that the larger the board the better board monitoring will be as well as there will be a greater board advice and expertise. Coles, Daniel & Naveen, (2008) argued that those firms which are complex on the basis of their size of firm and firm's business might get some benefit by placing larger number of members in boards, so this means that the larger or more complex the firm then it will need better board expertise as well as board advise. They supported their argument on the basis of empirical evidence that in case of big firms and complex firms and large firms then the value of Tobin's Q increases when number of members of board increases. But on the other hand this argument counters in case of small and medium sized enterprises because it is negatively linked with small sized firms. Similarly on the same line Lipton & Lorsch (1992) and Jensen (1993) argues that the larger members of boards are not very effective in formulation and implementation of strategies and in decision making in cases of small sized enterprises and medium sized enterprises.

The logic behind above mentioned argument is if the size of board is larger or there are too many members in it then it will become hard for all members to agree on single point because each and every human being has his own perspective of thoughts so they cannot agree on a single point or on a one decision. Previous studies suggested that the larger number of members in board can leads to the reduction in motivational level of every individual which will badly effect the commitment and effectiveness of members in decision making. Later on (Dalton

et al., 1999). Yermack (1996) and Eisenberg, Sundgren & Wells (1998) supported above argument through empirical evidence that smaller boards enhances the performance as well as value of the firm.

However, these researches vary in different market as Harris and Raviv (2006) analyzed that there is no relation exist between board size and profit. Mak and Kusnadi (2004) also identify that board size and firm value has inverse relation. Smaller board size also means all the information related to firm is shared between smaller numbers of people which means control of information and smaller group can also leads to nonprofessional relations (Kaymak & Bektas, 2008). For instance, Azrbaijani and San, (2012) found evidence in Malaysian economy that larger number of directors on board puts more pressure on managers to increase firm's performance.

Therefore, board size has different impact in different market. Pakistan on the other hand is an emerging economy with family owned businesses. These aspects add new and interesting points into the study and its finding. However, study done by Garg (2007) in India shows that board size has an opposite relation with firm as bad performance increase the size of the board and bigger board leads towards more bad performances and in India efficient board size is 6.

As far as Pakistani context is concerned the last set of argument may likely to apply. Similar to this set of arguments, Li et al. (2007) and He & Conyon (2012), researched on Chinese listed firms and claims on the basis of empirical evidence that larger members of boards are not very effective and they are insignificant in some cases specifically such actions like assessing

CEO enactment and determining his compensation plan. Huyghebaert and Wang (2012) claims that larger boards are risker because in larger boards only powerful directors dominate. They also claims that although board size does matter but on the other hand it doesn't affect similar transactions but on the other hand it is also connected with terminations of labor in case of listed firms of China. They also stated in their research that large members of boards might gave extra benefit to the expropriation of small number of investors and stakeholders. If this happens then it will increase the agency problems which are linked with big boards for an example entrenchment of managers, free riding and tunneling of directors. So these factors has a negative impact on export intensity of Chinese firms.

Because of the independence of board of directors and their fear to keep their status in the outside market, non-executive or independent directors will magnificently screen the actions and strategies of the executive and dependent directors and top managers in order to confirm that they are implementing such strategies which are well-suited for the welfares of investors and shareholders and also complement the top management's knowledge (Fama, 1980; Fama and Jensen, 1983; Cadbury, 1992). Researchers also claimed that the non-executive or independent directors may play an important role because of prior knowledge, education, past experience and social networks with others. They can also assist managers in making strategic decisions (Zahra, 2003).

Board structure is a structure of board of directors elected or appointed to supervise the activities of an organization. Corporate board structure and its impact on firm performance is one the most important and discussed part of corporate governance however, board structure is

different for different size of firms (Lincka, Nettera, & Yang, 2007). Therefore, Board structure defines the culture of an organization. As Abdelsalam El-Masry & Elsegini (2008) discussed that a significant role played by a corporate board is sustaining and disciplining the organization's management.

However, it is really important to have an independent board to practice true corporate governance (Mcgee, 2008). Independent board structure is not only efficient for governance but it can also increase quality, protection to minority shareholders as well as institutional shareholders and stock performance of an organization (Chung & kim, 2008). As McKnight and Weir (2008) discussed that the board lacking independent directors means its lacking expert decision making and unbiased knowledge.

For that reason, even the emerging economies like Pakistan has set the criteria that organization must comprises 25% of non-executive board members and also appreciate the representative for minority shareholders. Moreover, outsider board directors also enhance spending on R&D and positively participate in firm's performance (Baysinger, Kosnik and Turk, 1991). Mak & Li (2001) explained that ownership and board composition are dependent on each other as better ownership leads toward better board structure.

As board of directors directly participates in financial data, processing of information, structuring the organization and most importantly maintains the relation of the firm with ownership (Rezaeia, Delghandy & Miri, 2012). Therefore, institutional investors prefer independent board as it affects firm's performance and efficiently supervises the problems

related to firm's strategy. Institutional investors favor independent board since they are able to provide independent judgment when dealing with the matters.

As discussed by Li, (1994) that ownership structure has a significant effect on board that may leads towards negative consequences of institutional ownership as owners can become biased and make a board that is influenced by them therefore, it also creates and enhance agency problems in the firm (Pound, 1988).

Board structure is not only varying market to market however; it also changes with the firm size and environment. Linck, Netter, and Yang (2007), found that firms with more opportunity and high stock returns always prefer smaller board however, larger firms prefer larger and more independent board.

In Pakistan board structure mostly includes family members. Board independence is not appreciated as it creates hindrance in decision making and strategic policies. To fulfill the SECP recommendations fake or known and influenced people are announced to be the part of the boards. Therefore, this study will lead towards new and out of the ordinary findings.

Firm size is use for control variable in regression because, as documented in earlier studies, smaller firms have more information asymmetries than larger firms. The reason for more information asymmetries is that, in small firms it is easier for single manager to know a significant portion of information (Jeng et al., 2003). In existing literature different proxies are used to measure the firm size. Rajan et al. (1995) used sales as proxy for size while Ataullah et

al. (2014) used the total assets and in Fidrmuc et al. (2006) study firm size is appeared as the market capitalization of firm in some specification as well as natural log of number of employees in others specifications. Some studies also used the total sales as measure of firm size.

Current study is measuring firm size as natural logarithm of market capitalization of each firm. There are following reasons to use market capitalization as measure of firm size. First one is that it is believed that total assets are booked on cost and the value of two firms incorporated in different years in stock market may have different value of assets due to time value of money. Suppose assets purchased by one company in 1980 and another company purchased in 2008, both will have different cost due to time value of money so comparing these two companies on assets cost will not be a good proxy for firm size.

Secondly, sales are in the control of management and they may manipulate these sales as they want, so it should not be a proxy of firm size. Furthermore, growing companies have more sales than matured companies. However, the market capitalization is the result of market forces (i.e. demand and supply forces) and through the interaction of buyer and sellers hence this process is out of the control of management. So it could be argued that market capitalization is better measure of firm size relative to other proxies.

Firm leverage is also use for control variable because high leveraged firms are considered to be monitored by debt holders that reduce the information asymmetries (Harris et al., 1991). Pachori and Totala (2012) have documented that leverage is measures the financial risk taken by

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the firm because if high level of financial leverage allows shareholders to get higher return on equity but on the other hand it also leads to the risk of bankruptcy. In existing literature different proxies are used to measure the firms' leverage. Titman and Wessels (1988) used book value of debt divided by book value of debt plus market value of equity measure of financial leverage.

However, Rajan et al. (1995) used a different approach to measure the financial leverage of the firms. They used book value of debt divided by book value of debt plus book value of equity. This study used a ratio of interest behavior debt over total market value of equity as measure of firms' control because in Pakistan the source of debt is usually commercial banks rather bond market. The reason is that in Pakistan bond market is not established as in developed countries.

2.2   Hypothesis Development

The research proposed following hypotheses which explain the relation between corporate governance and firm's exporting decision.

H₁: *There is a significant relationship between managerial ownership and firm's exporting decision.*

H₂: *There is a negative relationship between institutional ownership and firm's exporting intensity.*

H₃: *There is a negative relationship between the size of the board and firm's exporting intensity.*

H₄: *There is no any relationship between the proportion of outside directors in the board and firm's exporting intensity*

2.3   Theoretical Framework

This section demonstrates the overall awareness about the influence of ownership structure, corporate governance and firm's exporting decisions. Hypothetical frame work of this study comprises of two main variables namely dependent variable and independent variable respectively. In this research export intensity is taken as dependent variable while on the other hand independent variables are institutional ownership, managerial ownership, board size and

board independence. Some control variables are also included in this research like firm size, growth rate and leverage ratio.

In order to understand graphically, the theoretical frame work of above mentioned dependent and independent variables are shown in diagram and also in form of equation.

Research Model

Figure 2.1


```
┌─────────────────────────────┐
│ Corporate Governance:       │
│                             │
│ -Board Size                 │
│ -Board Independence         │───┐
│ -Managerial Ownership       │   │
│ -Institutional Ownership    │   │        ┌──────────────────────────────┐
└─────────────────────────────┘   │        │  Firm's Exporting Decision   │
                                   ├───────▶│                              │
                                   │        │  -Export Intensity           │
┌─────────────────────────────┐   │        └──────────────────────────────┘
│ Control Variables:          │   │
│ -Firm Size                  │───┘
│ -Leverage                   │
│ -Growth                     │
└─────────────────────────────┘
```
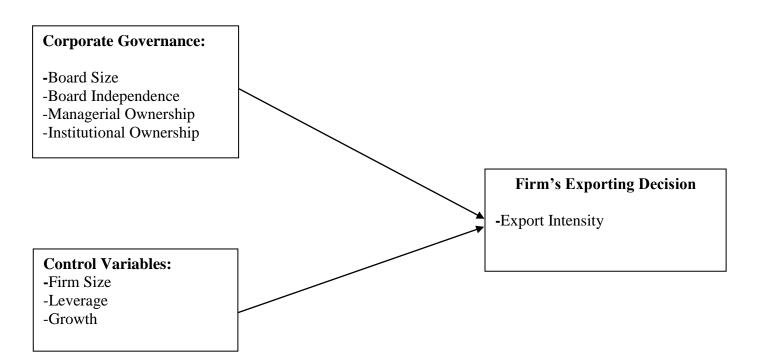
This figure shows that ownership structure and corporate governance are independent variables and firms export intensity is dependent variables

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Chapter 03

DATA DESCRIPTION AND METHODOLOGY

This section of study represents research methodology that is used to conduct the study and the source of data. For the determination of empirical analysis, this study uses a descriptive analysis, correlation and regression models. A descriptive analysis of data is performed to get sample characteristics. The panel data regression analysis is conducted on dependent variable, export intensity (EI) to check the association among the variables of ownership structure such as managerial ownership (MO), institutional ownership (INO) and corporate governance such as board size (BS) and board independence (BI).

3.1   Sample and Data Source

The current study aims to explore exporting decision of firm in the presence of both ownership structure and corporate governance for non-financial companies listed at Pakistan Stock Exchange. 100 companies were selected from 7 different industrial groups through stratified sampling technique. Each strata represents different industry like textile, food and Engineering etc. Companies were selected through non probability sampling technique from each strata on the basis of market capitalization. For-example 34 companies were selected from Textile industry as textile industry contributes more than around 50% of total exports. So from each industry each company is selected on the basis of market capitalization. The sample period is of 10 years from 2005 to 2014. Sample period starts from 2005 because corporate governance

mechanism is implemented in Pakistan after the reporting and highlighting of corporate scandals such as Tyco, Enron and World.com in 2000. According to corporate governance mechanism disclosure is mandatory for public limited companies.

Disclosure in financial reporting helps in collection of segment level sales data. Secondary data regarding export sales and ownership of shares (i.e. MO and IO) are collected from company's annual reports. Classification of sample companies by sector wise is given in following table.

Table 3.1: Sample Classification

Industry	No. of Companies
Textile	34
Chemical and Pharmacy	19
Engineering	08
Food	19
Construction and Manufacturing	14
Oil and Gas	03
House Holds Goods	03
Total	**100**

3.2   Variables of Study and Measurement

The purpose of conducting this research is to examine the effect of corporate governance and ownership structure on firm exporting decision. The result of data would check whether CG and OS specific variables are effecting positively or negatively on exporting decision of firm.

3.2.1 Dependent Variable

3.2.1.1 Export Intensity

Export intensity is taken as dependent variable. In case of exporting firm the intensity is value is ratio of exports sales to total sales (Dixon, Guariglia Vijayakumaran, 2015). On the other hand in the case non exporting firm the value of intensity will be zero.

3.2.2 Independent Variables

3.2.2.1 Managerial Ownership

The managerial ownership is measured in terms of the proportion of outstanding shares possessed by management in the firm. Managerial ownership is basically the shareholders of

company in which they have interest or shares. Lappalainen and Niskanen (2013) considered that key elements of growth are board structure and ownership structure.

Dixon, Guariglia Vijayakumaran (2015) argued that managerial ownership is positive and significant associated with export intensity but up to some certain level of percentage.

3.2.2.2 Institutional Ownership

Institutional ownership ratio in this study is measured as the number of shares held by institutional investors to the total number of shares outstanding. McConnell & Servaes (1990) gave empirical evidence that institutional ownership has negative relationship between export intensity of firm.

3.2.2.4 Board Size

Number of members in the board is used to measured board size. MAK and Kusnadi (2005) discussed that there is direct association between board size and performance of the firm. Yermack (1996), examined Finland companies and Liang and Li (1999), examined Chinese companies, both conclude that board size is negatively related with exports of firm.

3.2.2.5   Board Independence

In Pakistan recent reforms of SECP recommends board with non-executive directors and according to Pakistan's standards of corporate governance 25% of board should comprises of independent manager. So in this study board independence is taken as proportion of independent board members as past. There is no any relationship between board independence and export intensity in Chinese context Dixon, Guariglia Vijayakumaran (2015).

3.2.3   Control Variables

It is important to control the variables other than focus variables that may influence the insider trading to overcome omitted variable bias (Davidson et al., 2004). Following are the control variables in this study because existing literature has been documented that these variables have influence on exporting decision of firm.

3.2.3.1   Leverage

Leverage is calculated by dividing long term debt to shareholders' equity. Different proxies are used in different studies to calculate leverage. Like total debt is also used in place of long term debt. Total capitalization which account for long term debt and shareholders' equity is also used in the denominator. But in this study long term debt and shareholders' equity are used as proxy of leverage and these are also taken at book value.

3.2.3.2   Growth

Growth rate can be measured through assets, sales and number of employees but in this study growth rate is measured by taking the difference between current sales and previous year sales of the firm Dixon, Guariglia Vijayakumaran (2015). Previous literature shows positive relationship with exports and proved that those firms who had higher growth ratio have a higher probability to export in foreign markets and have a higher ratio of export intensity as it rises with growth.

3.2.3.3   Firm Size

Firm size is one of the most frequently used variables in different studies whether used as dependent or independent variable or the control variable. It may be calculated in other ways as well but in this study firm size has been calculated by taking the natural log of total sales as used by Burke et al. (1986) and Jiraporn et al. (2014)

3.3 Model Specification

Econometrically, regression equation for panel data regression models is expressed as follows:

$$\text{EXP\_INT}_{(i,t)} = \beta_0 + + \beta_1 \text{MO}_{(i,t)} + \beta_2 \text{IO}_{(i,t)} + \beta_3 \text{BS}_{(i,t)} + \beta_4 \text{BI}_{(i,t)} + \beta_5 \text{LEV}_{(i,t)} + \beta_6 \text{FS}_{(i,t)} +$$

$$\beta_7 \text{GRO}_{(i,t)} + \varepsilon_{(i,t)} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \text{ (A)}$$

Where,

- $\text{EXP\_INT}_{(i,t)}$ = Export intensity.

- $\text{MO}_{(i,t)}$ = Managerial ownership.

- $\text{IO}_{(i,t)}$ = Institutional Ownership.

- $\text{BS}_{(i,t)}$ = Board Size.

- $\text{BI}_{(i,t)}$ = Board Independence.

- $\text{FS}_{(i,t)}$ = Firm size.

- $\text{Lev}_{(i,t)}$ = Firm leverage

- $\text{GRW}_{(i,t)}$ = Growth.

- β = Coefficient or Marginal Effect

- $\varepsilon_{(i,t)}$ = Error Term

Table 3.2: Variable's Description

Variable	Description	Measurement
EXP_INT	Export Intensity	Ratio of export sales to total sales.
MO	Managerial Ownership	Percentage of shares owned by managers.
IO	Institutional Ownership	Shares held by other institutions.
BS	Board Size	Total number of directors on the board of directors.
BI	Board Independence	Proportion of independent board members.
FS	Firm Size	Logarithm of total sales.
LEV	Leverage	Ratio of total debt to total shareholder's equity.
GRW	Growth	Difference of sales from previous year.

3.4   Panel Data Regression

The situation often arises in financial modeling where we have data comprising both time series and cross-sectional elements, and such a dataset is called as a panel or longitudinal data. The simplest way to deal with such data is to estimate a regression, which would involve estimating a single equation on all the data together, so that the dataset for *y* is loaded up into a single column containing all the cross-sectional and time-series observations, and similarly all of the observations on each explanatory variable would be loaded up into single columns in the *x* matrix. Then this equation would be estimated in the usual fashion using OLS.

3.4.1   Common Effect Model

The main assumption of this model is that there is no distinction among the intercept of all cross sections which means Beta is same for all cross sections. Let assume that if the data is homogenous then intercept will be same for all cross sections, so common effect will be the best model for the analysis. The model of common effect can be written as

$$Y_{(i,t)} = \beta_o + +\beta_i X_{(i,t)} + \mu .... \text{(Eq A)}$$

3.4.2. Fixed Effect Model

The assumption behind this model is intercept will be not same for each and every cross section but will be different. A separate dummy is included in this method to show the extent of dissimilarity between the intercepts of each cross section unit. It is also called least square dummy variable. For example, if there is a diversity in data, intercept will different for each unit, hence the best model for panel data estimation would be fixed effect model. The hypothesis of the same intercept would be rejected when the standard F-statistics is significant and hence fixed effect model will be applied, otherwise common effect model will be used for the estimation. The model of fixed effect can be written as

$$Y_{(i,t)} = \beta_{(i,t)} + \beta X_{(i,t)} + \mu .... \text{(Eq B)}$$

3.4.3. Random Effect Model

This model is same as fixed effect model, it is used when intercept is different for all cross sections as well as time period, but here in this model we want to check whether intercept follow a systematic pattern or not. It assumes that Beta is not meaningful here because it follows a random path. The model of the fixed effect can be written as

$$Y_{(i,t)} = (\beta_o + \mu) + \beta X_{(i,t)} + ... \text{(Eq c)}$$

To chooses between fixed and random effect model we can use Hausman test to decide the most appropriate model among both of them. If the Hausman test is significant then fixed effect model will be used otherwise, random effect model will be used for estimation.

3.5   Pooled Dummy Variables

Pooled data incorporates the data for different cross sections over the time. Technically, it includes both the cross sectional and time series data. Panel data assumes that all the variables included in the panel contains common parameters. Simply it could be taken into the way that panel data is the pooling which provides average of the individual parameters.

Panel data comes up with certain advantages which time series data do not adequately address. An explanation of the aforementioned issue is the adequacy of number of observations which may be less in time series data, hence creating difficulty in obtaining significant t-ratio of F-statistics. Pooling of different cross sections over the time may provide large number of observations. Panel data estimations can be made by different methods based on the nature of data. Simple panel data estimation assumes that all the data set in the panel is homogenous means that constant and coefficient is common across the unit. It could be shown b equation shown below:

$$Y_{(i,t)} = \beta_o + +\beta_\iota X_{(i,t)} + \mu .... \text{(Eq D)}$$

Where all the variables in the data set contains same constant and coefficients over the time. Results of the common coefficient model as reported in the chapter of results were significant stating that assuming common intercept across companies exporting decision is

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explained by the level of corporate governance in Pakistan. However data may vary in terms of different cross sectional units means that there could be difference in coefficients of different cross sectional units which may provide biased results. This problem could be addressed by estimating fixed effect model which assumes different cross sectional units by creating dummies of each data set.

3.4.6   Sector Analysis

In this study different sector has been analyzed to check the export intensity of each sector. Different dummies for each sector have been used to find out the effect of CG on export intensity of each sector. For seven different sectors seven different estimations has been used in the study in next chapter.

Chapter 04

EMPIRICAL RESULTS AND DISCUSSION

This specific chapter exhibits the empirical analysis and exploration carried out with in the data which is shown and displayed in previous chapter. The particular analysis and exploration is based on research methodology revealed in chapter 03 also. To evaluate the impact of corporate governance and ownership structure on the exporting decision, a sample was taken out from companies which are listed at Pakistan Stock Exchange. The first two sections elaborate the descriptive statistics and the correlation matrix. The third section introduces and discusses the econometric models and also explains how the models specified are predictable and evaluated. The fourth and last section presents an interpretation of the experimental results.

4.1   Empirical Results

4.1.1   Descriptive Results

The descriptive statistics presents overview of data that include mean, medium, mode, maximum, minimum, standard deviation, skewness and Kurtosis etc. Mean value provides average of data while mode shows most repeated value and medium shows middle value of raw data. Standard deviation provides spread and dispersion of data from the mean. Standard deviation and mean is meaning less if used separately. Skewness tells about the positive or negative spread of data while Kurtosis is about the flatness of data spread. In case of Kurtosis, if

the value is equal to 3 then normal distribution and pattern is called mesokurtic. If the value is > 3 then pattern is called leptokurtic that are associated with simultaneously peaked and fat tail. But when value of kurtosis is less than 3 it is called platykurtic and is associated with simultaneously less peaked and have thinner tail.

Table 4.1: Descriptive Statistics

	EXPT_INT	BI	BSIZE	MO	INST	F_SIZE	LEV	GRO
Mean	0.219	0.299	8.208	0.186	0.167	10.012	0.184	0.091
Median	0.175	0.286	8.000	0.189	0.171	8.307	0.123	0.067
Maximum	0.585	0.500	13.000	0.333	0.353	25.034	1.896	0.351
Minimum	0.000	0.125	4.000	0.004	0.014	5.116	0.006	-0.167
Std. Dev.	0.191	0.067	1.975	0.090	0.073	5.049	0.210	0.134
Skewness	0.435	0.285	0.416	-0.136	-0.110	1.765	3.076	0.390
Kurtosis	1.722	3.854	3.010	1.772	2.244	4.636	16.079	2.713
Jarque-Bera	89.617	39.564	25.937	59.352	23.241	567.438	7833.482	25.879
Probability	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000

Descriptive statistics explains the characteristics of data.

Data is collected from the sample of 1000 firms listed in Pakistan Stock exchange. Mean value of export intensity is 0.219 which shows that average export sales of firms listed in Pakistan Stock Exchange is 21.9% of total sales. Maximum value indicates that there are firm in Pakistan which are highly dependent on foreign sales. Some firm have 58.5% of their total revenue coming from foreign sales. Minimum value which is 0%, shows that some firms do not export in large quantity of their products or highly dependent on domestic customers.

Mean value of board independency is 0.299, which shows that 29.9% of the board members are acting as independent board member or directors. Maximum value of Board independency is 0.50 which means there are firms in Pakistan in which 50% of board members are independent board members. Minimum value of board independency is 0.125, which shows that in Pakistan minimum percentage of independent board of directors is 12.5%. Value of kurtosis greater than 2, so there is no normal distribution related to board independency.

Mean value of board size is 8.208, which shows that average number of directors in Firms listed in Pakistan Stock exchange is between 8 to 9 directors in each firm. Maximum value is 13, which shows that there are firms listed in Pakistan Stock exchange in which the number of directors is 12 and minimum value which is 4, shows that there are firms listed in Pakistan Stock exchange in which the number of directors is only 4.

Mean value of managerial ownership shows that on average 18.6% of ownership of shares belongs to managers in firms that are listed in Pakistan Stock Exchange. Maximum value shows that there are firms in Pakistan in which managerial owner ship is about 33.3% and minimum value of 0.004 shows that there are firms in which the managerial ownership is only 0.4%. Mean value of institutional ownership shows that on average 16.7% of investments belongs to different institutes in Firms listed in Pakistan Stock Exchange. Maximum value shows that there are firms in Pakistan in which institutional owner ship is about 35.3% and minimum value of 0.014 shows that there are firms in which the institutional ownership is approximately 1.

Mean value of leverage is 0.184 which shows that on average every firm use to have 18.4% debt of its total equity. Maximum value shows that there are firms listed in Pakistan stock exchange which are holding 89.6% debt of their total equity, so they are more focusing on debt financing. On the other hand minimum value of 0.006 shows that there are firms which are more relying on equity financing because they are holding 0.06% debt of their total equity. Mean vale of firm size shows that firm listed in Pakistan stock exchange have an average annual sales of 1000 million rupees. Maximum value shows that there are firms whose annual sales are 2503 million rupees and minimum value shows that there are firms having annual sale of 511 million rupees.

Positive value of mean of growth which is 0.091, shows that there is 9 % average increase in sales as compare to the previous years. Maximum value of growth shows that there are firms in Pakistan, whose annual growth in Sales is 35.1% as compare with the previous years

and negative value of -0.167 which shows that instead of growth there are some firms showing decrease in sales as compare to the previous years.

4.2   Multicollinearity Checks

Correlation indicates the strength of relationship between two variables.   All variables have significant correlation relationship with export intensity except Board size and export intensity has insignificant relation with board size as the value of correlation is greater than 2. Export intensity has positive relationship with board independence. This means that if there is positive change in export intensity, on the same time there will be positive change in board independence too. Board size, managerial ownership, institutional ownership, firm size, leverage and growth has negative correlation with export intensity as there is a negative sign, which means that positive change in export intensity will bring negative change in all these other variables.

Table 4.2: Correlation Matrix

	EXPT_INT	BI	BSIZE	MO	INST	F_SIZE	LEV	GRO
EXPT_INT	1							
BI	0.028***	1						
BSIZE	-0.103	0.168	1					
MO	-0.015***	0.204	-0.071**	1				
INST	-0.031***	0.016***	-0.035***	0.069**	1			
F_SIZE	-0.035***	-0.129	0.043***	-0.211	-0.094**	1		
LEV	-0.047***	0.035***	0.046***	0.188	0.157	-0.033***	1	
GRO	-0.004***	-0.013***	0.019***	-0.001***	0.091**	-0.030***	0.133	1

Note: This table presents the results for correlation analysis. Furthermore, *** and ** denotes that the coefficient is statistically significant 5% and 10%.

Table 4.3: Variance Inflation Factors

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	0.002267	43.87899	NA
BI	0.012572	22.83115	1.091759
BS	1.39E-05	19.19634	1.049397
MO	0.007199	5.931862	1.134362
INST	0.001784	1.752978	1.040729
FS	2.16E-06	5.242855	1.065549
LEV	0.001895	1.38268	1.080790
GROWTH	0.002267	43.87899	1.025417

For further confirmation, variance inflation factors (VIFs) are computed as VIF $q = 1 / (1 - q)$, where q is the correlation coefficient obtained from regressing explanatory variable, q, on all the remaining explanatory variables in the model. VIF's results are essentially free from any serious multicollinearity among the explanatory variables. The variance inflation factors reported in above table, ranging from 1.008623 to 5.412356, are evidence that there is no significant multicollinearity among these explanatory variables.

4.3. Regression Analysis

Selection of model for export intensity as dependent variable

Model selection is based on two criterions; likelihood ratio and Hausman test in this study.

4.3.1. Common Effect Model

Table 4.4: Common Effect Model

Dependent Variable: EXP_INT

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.132	0.043	3.060	0.002
BI	0.117	0.094	1.242	0.215
BSIZE	-0.007	0.003	-2.356	0.019
MO	0.020	0.072	0.273	0.785
INST	0.786	0.085	9.262	0.000
FIRM_SIZE	-0.001	0.001	-0.952	0.341
LEVERAGE	-0.057	0.030	-1.913	0.056
GROWTH	-0.005	0.046	-0.112	0.911
R-squared	0.106	Mean dependent var		0.219
Adj R-squared	0.099	S.D. dependent var		0.191

S.E. of regression	0.181	**Akaike info criterion**	-0.570
Sum squared resid	29.272	**Schwarz criterion**	-0.527
Log likelihood	264.548	**Hannan-Quinn criter.**	-0.554
F-statistic	15.051	**Durbin-Watson stat**	0.379
Prob(F-statistic)	0.000		

Note: This table depicts the results for linear panel data model using both the firm and year fixed effects. The dependent variable is the export intensity ratio and the independent variables are firm specific attributes. Furthermore, ***, **, * denotes that the coefficient is statistically significant at 1%, 5% and 10%, respectively.

Above table reports the results for firm's exporting decision and firm specific attributes by using panel regression analysis. A linear panel data model with the firm common-effects to estimate the results is used. The coefficient of the explanatory board independence is positive and significant while board size is negative and significantly different from zero. The value of adjusted R^2 = 0.099 shows that about 9 % of variation in firm's exporting decision is caused by stated explanatory variables collectively. In other words, firm's exporting decision is 9 % explained by stated explanatory variables collectively.

4.3.2. Likelihood Ratio Test

Here,

Null hypothesis: Common effect is more appropriate

Alternate hypothesis: Fixed effect is more appropriate

Table 4.5: Likelihood Test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	48	-99793	0.000
Cross-section Chi-square	1772	99	0.000

Results in table 4.6 show the significant cross-section Chi-square with p-value of 0.0000 and hence the fixed effect model is more appropriate.

4.3.3. Random Effect

Table 4.6: Random Effect Model

Dependent Variable: EXP_INT

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.179	0.045	3.991	0.000
BI	0.161	0.060	2.689	0.007
BSIZE	0.000	0.003	0.008	0.993
MO	0.013	0.046	0.291	0.771
INST	0.040	0.059	0.675	0.500
F_SIZE	-0.002	0.003	-0.600	0.549
LEV	0.004	0.016	0.277	0.782
GRO	-0.025	0.019	-1.325	0.185
R-squared	0.012	Mean dependent var		0.031
Adj R-squared	0.004	S.D. dependent var		0.072

S.E. of regression	0.072	**Sum squared resid**	4.661
F-statistic	1.552	**Durbin-Watson stat**	1.160
Prob(F-statistic)	0.146		

Note: This table depicts the results for linear panel data model using both the firm and year fixed effects. The dependent variable is the export intensity ratio and the independent variables are firm specific attributes. Furthermore, ***, **, * denotes that the coefficient is statistically significant at 1%, 5% and 10%, respectively.

Above table reports the results for firm's exporting decision and firm specific attributes by using random effect regression analysis. We use linear panel data models with the firm fixed-effects to estimate the results. The coefficient of the explanatory variable board independence (BI) is positive and significant. This means that quality of independent directors in board ultimately helps in firm's exporting decisions and this increases the export intensity in context of Pakistan. The value of adjusted R^2 = 0.004 shows that about 0.04% of variation in export intensity is caused by stated explanatory variables collectively. In other words, export intensity is 0.04% explained by stated explanatory variables collectively.

4.3.4. Hausman Test

Here,

Null hypothesis: Random effect is more appropriate

Alternate hypothesis: Fixed effect is more appropriate

Table 4.7: Hausman Test

Correlated Random Effects - Hausman Test

Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	19.699	7.000	0.006

Hausman test is being run to confirm the feasibility of fixed effect model or random effect model with the condition that if p value is significant (less than 5%), then fixed effect model will be preferred rather random effect model and vice versa in case when p value is not significant. So here P-Value of cross section is significant so data is to be tested through fixed effect model. The results of the fixed effect model are therefore selected for further interpretation and discussion in the following sub section.

4.3.5. Fixed Effect Model

This circumstance often arises in fiscal demonstrating wherever the data including both time series and cross-sectional components, and such type of dataset is called as a panel or longitudinal data. The easiest way that is used to deal is to estimate a regression, which would include approximating a single equation on all data set together so when the dataset for a variable$y$ is loaded up in one column covering all the cross-sectional and time-series data set observations, and similarly all of data set observations on every explanatory variable will load in single columns of the variable x matrix. So the equation that is used for estimation is OLS.

Table 4.8: Fixed Effect Model

Dependent Variable: EXP_INT

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.164	0.054	3.061	0.002
BI	0.157	0.061	2.566	0.011
BSIZE	0.002	0.004	0.509	0.611
MO	0.021	0.047	0.435	0.664
INST	-0.013	0.061	-0.214	0.831
FIRM_SIZE	-0.001	0.004	-0.176	0.860
LEVERAGE	0.006	0.016	0.379	0.705
GROWTH	-0.026	0.019	-1.367	0.172

R-squared	0.875	Mean dependent var		0.219
Adj R-squared	0.858	S.D. dependent var		0.191
S.E. of reg	0.072	Akaike info criterion		-2.319
Sum sq resid	4.086	Schwarz criterion		-1.748
Log likelihood	1150.620	Hannan-Quinn criter.		-2.101
F-statistic	52.443	Durbin-Watson stat		1.310
Prob(F-statistic)	0.000			

Note: This table depicts the results for linear panel data model using both the firm and year fixed effects. The dependent variable is the export intensity ratio and the independent variables are firm specific attributes. Furthermore, ***, **, * denotes that the coefficient is statistically significant at 1%, 5% and 10%, respectively.

The fixed effect model shows that there is significant and positive relationship between board independence and export intensity. The result of this study is consistent with Dixon, Guariglia Vijayakumaran (2015). This means that independent directors does plays a significant role in order to help firm's to expand their business activities in foreign markets.

4.1.4. Pooled Dummy Regression Analysis

Table 4.9: Pooled Dummy regression

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.342071	0.045251	7.559401	0.0000
BI	0.131622	0.101974	1.290745	0.1971
B_SIZE	-0.008864	0.003556	-2.492732	0.0129
MO	0.018442	0.079941	0.230701	0.8176
INST	0.008910	0.037236	0.239279	0.8109
F_SIZE	0.009814	0.002408	4.075837	0.0000
LEV	-0.105738	0.031960	-3.308437	0.0010
GRO	-0.034432	0.043391	-0.793528	0.4277
CHEM___PHARM	-0.268016	0.018801	-14.25515	0.0000
ENG	-0.160886	0.025489	-6.312106	0.0000
FOOD	-0.172433	0.018399	-9.371882	0.0000
CONST___MANU	-0.310376	0.030977	-10.01969	0.0000
OIL___GAS	-0.265809	0.053426	-4.975225	0.0000
HH_GOODS	-0.203295	0.050762	-4.004831	0.0001

R-squared	0.252047	Mean dependent var	0.234726
Adjusted R-squared	0.241073	S.D. dependent var	0.216669
S.E. of regression	0.188754	Akaike info criterion	-0.481306
Sum squared resid	31.56663	Schwarz criterion	-0.406602
Log likelihood	230.5877	Hannan-Quinn criter.	-0.452769
F-statistic	22.96665	Durbin-Watson stat	0.368118
Prob(F-statistic)	0.000000		

Above table shows the results of pooled dummy variable in which one out of seven sectors had been used as based sector and observed the behavior of coefficients for remaining six sectors. Base sector had been taken as Textile and showed that from remaining 6 sectors all sectors are significantly different from each other in P-Value as well as different in terms of coefficient measured. Base sector which is Textile had coefficient of 0.316007 which is different from all other industries coefficient. The above model has value of adjusted R^2 is 0.241 which tells that all theses variables brings only 24.1% variation in export intensity of firm. The model is good fit as value of F-Stat is 0.

4.2. Discussion of Results

According to likelihood ratio test and Hausman test, fixed effect model is more appropriate or the best fit model for estimation in this study as the P-value of both tests is less than 0.05. Therefore, results of both tests suggested for application of fixed effect test for analysis of panel data. On the basis of results of these tests, the hypotheses are verified.

The acceptance of alternate hypothesis is based on empirical results of fixed effect model. The results show that value of Adjusted R^2 in fixed effect model is 0.858 which means that all independent variables bring 85.8 % in dependent variable. In other words we can say that fitness of fixed effect model is 85.8%.

The study shows insignificant and positive relationship between board size and export intensity of firm. Also result of this variable is consistent with Dixon, Guariglia Vijayakumaran (2015). This means that there is a positive but insignificant relationship between size of board and exporting decision of firm. While on the other hand managerial ownership does have

insignificant and positive relationship with exporting decision of firm as the value of P is 0.664 because they are the key persons who are at driving seat of the firm.

Institutional ownership has negative and insignificant relationship with export intensity as P-value of institutional is 0.831 which is greater than 0.10 and it is insignificant. Results are consistent with prior studies as Park et al. (2010).

As per results, firm size and growth has insignificant but negative relationship with export intensity which means that the larger the firm the lesser it will export. The results contradicts with general perception that larger firms are more likely to be exporters because they sufficient resources, they avail economies of scale while they have also access to external financial resources. But in Pakistan more and extra intention is given to small and medium enterprises and to encourage SME's to participate in foreign market. Results of firm size and growth are consistent with the context of Pakistani economy.

Leverage has also positive as well as insignificant relationship with export intensity of firm which means if firms participates in foreign markets it will ultimately help in growth of net profits as well as revenues of a firm.

Chapter 05

CONCLUSION AND POLICY RECOMMENDATIONS

5.1   Conclusion

The focus of this study is to explain the effect of managerial ownership and corporate governance on the exporting decisions of the firm. As this study consists of 100 firms from different sector and the data was collected form firms annual reports. The exporting decision of firm is measured by one proxy that is export intensity. On the basis of empirical evidence provided in this study with respect to export intensity results showed that exporting decision of firm is majorly affected by board independency because they have significant relationship with export intensity and export intensity has insignificant relation with growth and managerial ownership, institutional ownership, board size, leverage, growth and firm size

As far as export intensity is concerned which is export sales to total sales, results are similar as compared to previous studies Dixon, Guariglia Vijayakumaran (2015) is being affected by board independence which means the more interdependence in the board the more firm will export and same case will happen with board size. But on the other hand ownership structure doesn't play any important role as the managerial ownership and institutional ownership has insignificant and negative relationship between export intensity. This means that the neither institutional ownership nor managerial ownership effects exporting decision of the firm. So here arises a question why managerial ownership has insignificant but negative relationship with

export intensity? The answer is in Pakistan managers are the owners as well as major shareholders because of concentrated ownership problem due to family owned firms in Pakistan.

Size of firm also does matter in exporting decision as well as in exporting activities. Previous studies Dixon, Guariglia Vijayakumaran (2015) and this study shows that the smaller or younger the firm the more exports it will make because younger and smaller firms take risk of start-up and sunk cost as compared to larger and older firms. While on the other hand the relationship between leverage and export intensity is significant as well as positive in nature. Growth has insignificant and negative relationship with exporting decision of firm.

So from above discussion we conclude that there is a significant relationship between corporate governance and firm's exporting decision but there is a negative as well as insignificant relationship between ownership structure and exporting decision of firm. On the basis of empirical results only one hypothesis H_2 is accepted as empirical results showed negative and insignificant relationship between institutional ownership and exporting decision of firm. While on the other hand on the basis of empirical results 3 out of 4 hypotheses are being rejected which are H_1, H_3 and H_4.

5.2   Policy Recommendations

Before any recommendation, it should be kept in mind that according to this research corporate governance only produces 86.2 % variation in firm's exporting decisions. Remaining 13.8 % variation is produced by other factors such as exchange rate, political and international

relations with other countries etc. it should also kept in mind that according to recent Survey of Pakistan 2016 exports of Pakistan decreased by 7% as compared to 2013 due to some socio economic factors. Particularly this reduction is observed after the lifting of export ban by European Union in 2013 when Pakistan got status of GSP Plus from EU.

As per previous discussion drawn from chapter 1 to conclusion in this study, the following recommendations or suggestions are planned

- In order to encourage international participation of Pakistani listed firms, government should take some serious steps like establishing international relations to promote export sales for example China Pakistan Economic Corridor.
- Managerial ownership should be at optimal level in order to reduce agency problem as well as concentrated ownership
- To increase export intensity, firms should encouraged smaller size of board of directors as the larger the size of board the more complex will be decision making.
- Firms should also pay attention on the quality of independent directors in their board of directors.

5.3 Limitations

A lot of effort is made to conduct this study in a way that it can be useful for the readers and practitioners; however there is some limitation to the current study. This study takes into account only listed companies on PST that issue financial reports on regular basis. Furthermore,

this study considers only non-financial firm that are listed in PST. Another limitation is that this study only considered the companies that are listed only on Pakistan Stock Exchange, not a single company is selected from any other stock exchange. Finally the study is limited only to Pakistan and results can be generalized for the non- financial companies operating in Pakistan.

5.4   Future Research Directions

More contribution can be added by increasing number of firms in data collection as this research only taken 100 listed firms from PST in order to get more clear results. Secondly this study didn't focus on the top management especially CEO's quality like export experience as well as education. Another direction is comparative analysis of managerial ownership and corporate governance in order to explore to what extent managerial ownership is optimal to raise export intensity.

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