Corporate Governance and Value Relevance of Accounting Information: Evidence from Pakistan

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Abstract

This study aims to investigate the impact of corporate governance on value relevance of accounting information of KSE index non-financial companies for the time period of 11 years from 2005 to 2014. The study uses dependent variable share price and independent variable, board independence, board size and audit quality as a proxy of corporate governance, Earnings per share and Book value per share as a proxy of value relevance of accounting information. The study also use some control variables, like firm size, sale growth, firm leverage and profitability that are affecting the study. The study has used the data of 90 companies for the analysis. The study use panel data estimation technique and used fixed effect model. The findings of the study revealed that corporate governance have significant affect on value relevance of accounting information i.e. Board independence and Board size have positively and significant impact on Earnings per share. Audit quality have insignificant impact on Earnings per share while the Board independence, Board size and audit quality have insignificant affect on Book value per share. Moreover, the result of control variable conclude that profitability and firm leverage are negatively to the Earnings per share and firm leverage and sales growth is has no affect on Earnings per share and Book value per share.

Keywords: Corporate governance, value relevance, accounting information

CHAPTER 1
INTRODUCTION

1.1. Background of the study

Broadly define; the corporate governance refers to the laws, regulation and accepted business practices, which together govern the relationship, in a firm economy, between manager on one hand, and those who invest resources in corporation, on the other. Investor can include suppliers of debt, firm-specific human capital other tangible and intangible asset, that corporation use to operate and grow (Oman, 2003).

Corporate governance has become one of the main equipments utilized by firm in aiming company's managerial pursuits. Corporations and business governance on the inside successful part with regards to investment resources is adequate information, both financial and non-financial. It is expected that good governance structures create value by providing value-relevant financial information. Company's reports provide information about a firm's liquidity, solvency, success, proficiency and wealth formation roles (Koh et al., 2007). In Asian market, the corporate governance structure, provide an environment to assess the impact of corporate governance structures on value of the firm. The basis to oversee the credit reporting originates from the Organizations (Carlin and Mayer, 2000). The matter of value-relevance of historical information has already been taken into consideration (Zhang et al., 2007). Financial information is the product of corporate accounting and external reporting systems that measure and publicly disclose audited, quantitative data concerning the financial position and performance of publicly held firms. (Malik et al., 2012)

Nasrum (2103) argue that the purpose of financial reporting is to provide information to all the stakeholders of the company so that they can be informed about the firm's resources and activities. Shareholder plays a crucial role in the development of any enterprises. Ownership of the firms dispersed among management, foreign as well as domestic investors, and other stakeholders. Shareholders invest their capital with a purpose to earn return from their investment either in the form of dividend or capital gains. Good governance by itself is necessary for the development of corporate sector. A well-built corporate sector is the result of good governance which has build and increase the economic growth (Francis et al., 2004). At the corporate level, the important decision making is regarding dividend payout policy. The company board of directors decides to distribute earning of the company to its shareholders, whenever it s suitable for the company (Yermack, D. 1996).

The foremost motivation behind financing in a firm by investor is to receive controlling right in return. There is a contract between the firm's manager and capital provider, which gives them assured rights to firm's assets (Hart, 1995). The providers of the capital have right to go to the court to insist on their rights, if the management of the firm disobeys any terms of contract. Difference in system of corporate governance throughout the world is due to difference in legal requirements as well as how the courts understand and put in force such obligations. The essential right of the shareholder is to vote on the firm's keys corporate issue, like director's election, CEO selection etc (Easterbrook and fischel, 1983). Generally there exists a requirement for the shareholders to show up to vote on or discuss the significant matters of the company; this event showing up is commonly called as shareholders meeting. The right of shareholder can be despoiled more often in countries with feeble legal system. Let’s takes an example of a Russian firm, where the firm managers sometimes pressurize their employs who are no doubt the shareholders of firm with layoffs until and unless they vote in the favor of management “those who counts the vote is more important than how people vote”. Still even in Russia and other major countries of the world, court gives protection to large shareholders. In sum, the nature of legal rights of shareholder differs dramatically across countries. The main problem observed across the counties is that even if the boards of directors are selected by the shareholders, the directors are not able to represent the wellbeing of all shareholder in true spirit. The boards of companies differ to a greater extent between developed and developing economies for example in Germany there is a concept of two-tier board, one supervisory and other management boards; however in Japan, board is dominated by inside directors (Charkham, 1984). Sometime boards, dominated by the outside director’s in US, remove the top managers of the as a consequences of their poor performance (Weisbach, 1998).

In numerous counties, manages of the firm shows in addition the loyalty to the shareholder and have strong financial decision making powers (Kleirch, 1989). Theoretically, manager of the firm have duty to serve the best interest of all shareholders, however the suitability of this duty varies from manager to manager. The manager is liable to act in the best interests of all the shareholders like creditors, employs, etc. Shareholder having majority of shares can shape the decision of the company, if the voting mechanism of the company works well and if good value relevance of accounting information exists. Shareholder having more than fifty of ownership can convey their preferences and no voting is required (Hopt, 1988).

Large majority shareholders can exercise their rights in counties where the legal system is not supportive thus influencing the decision making process

Corporate governance mechanism in Pakistanis considerably different than the leading structure of corporate governance in United State, United kingdom and other developed countries because they have strong value relevance of accounting information Zingales, L., (2000). Even with in Pakistan, the system of governance is not the same. Various companies function as business group, where is other firm with in the state are operating as individual or standalone companies. Ownership structure in Pakistan is also different from developed like the United Kingdom. Large shareholders have the power to control major decisions in Pakistan, for example, directors and corporate shareholders, and they have more incentive than the other shareholders. The relationship between corporate governance and value relevance of accounting information had been researched mostly in developed countries of the world like United State, Australia, United Kingdom and Japan. In most of the developed countries there have been significant agency problems between the agents and principals of the firms. In developing economies such as Pakistan, shareholdings of the firm are mostly held in few hands. This means that more than 50 percent are the share are held by family and friends, as they are also the owner of the firm. Hence the firm importance of understanding the value relevance associated with accounting information needs to be addressed.

The involvement of corporate governance has increased over time, while it is impossible to have a crime free society, so there is a need to spell out the rule of the game that can be over emphasized. The term corporate governance means a method by which a firm are intended for and coped with problems so that the best interests of the all shareholders are protected (Akinsuleri, 2011). The important factor is creating a sustainable shareholder value is the good corporate governance practices and its principles by ensuring that that the behavior is ethical , legal and transparent, therefore corporate governance should not be views as an end in itself but an essential spur to the creation of long-value for all shareholder. The objectives of the company are set through the format given by the corporate governance, and it provides the rationale through which these objectives can be achieved and performance can be monitored Yermack (1997). Corporate governance is a set of relationship between a company's board, its management, and stakeholders. Adequate accounting information should be provided to the board and management so that the objectives can be achieved thus acting in the best interest of the company and its shareholders. The system of corporate governance can only provide a certain degree of confidence that is necessary for the proper functioning of firm, hence affecting the effectiveness, usefulness and durability of governance mechanism in an economy.

The researchers have dedicated it's time for analyzing the corporate governance practices and value relevance of accounting information Yermack (1995). Most commonly, two relationships has been studied i.e the connection between the system of corporate governance and firm value as well as the value relevance of accounting information (Klapper and Love, 2004). The governance and accounting relevancy has involved over the time. There is need to discuss and understand it especially in most of the emerging economies. This association may vary because of the differing regulatory and business environment in the economies. The environment factors that play a role may be the level of market sophistication; the level of investor protection, economies, social and cultural differences, etc (Sawicki, 2009). Hence the argument stated before above provides the motivation for this study so that the role of corporate governance and accounting relevancy in emerging country like, Pakistan can be analyzed.

1.2. Theoretical background

1.2.1. Agency theory

The classic organization perspective states that the separating of corporate managers from investors may result in inherent conflict. Corporate governance mechanisms are definitely the means by which managers are regimented to act in the investors' interest. There are certain control mechanisms involved. These control components include both internal components, such as managerial motivation plans, director monitoring, the internal labor market, and external mechanisms, such as outside shareholder or debt holder monitoring, the market for corporate control, competition in the product market, the external bureaucratic labor market, and stock options laws that protect outdoors investors against expropriation by corporate insiders Wurgler, (2000). Financial information is the matter of corporate accounting and exterior reporting systems that offers to many internal problems as well as solution publicly disclose audited, quantitative data regarding the financial position and performance of publicly held firms Weisbach, (1988). Economic accounting systems provide immediate input to corporate control mechanisms, as well as providing indirect input to corporate control mechanisms by leading to the information covered in stock prices. A fundamental objective of governance research in accounting is to provide evidence on the extent to which information provided by financial accounting systems mitigate company problems due to the separation of managers and outside investors, facilitating the efficient flow of hard to find human and financial capital to promising investment opportunities. It is assume that governance studies important for developing a complete knowledge of the impact of providing useful financial accounting information.

1.3. Role of Security and Exchange Commission of Pakistan

In Pakistan the Security Exchange Commission of Pakistan (the SECP) introduced and published the "Code of Corporate Governance (2002) for publicly listed companies. This publication is considered to be an important milestone in the corporate sector. The corporate governance is concerned with the firm performance and the governance level, i.e. with Board size, Board composition, financial disclosure, etc. Javid and Iqbal (2010) it has defined as "who owns the firm, and dictates the rules by which economic returns are distributed among shareholder, employees, manager, and other stakeholder". Corporate governance is defined differently by different peoples and varies from country to country. Some define it in terms of formal system where the management is accountable only to the shareholders and other covers that the management is responsible for the entire society. These Anglo-American systems involving corporate governance tend to focus on shareholders and their intrests (Mohanty, 2003).

Based on La Porta et. al. (2000), "corporate governance includes a couple of mechanisms through which usually outside investor guard themselves against expropriation by the insider". It is outline that the insider include both managers as well as controlling shareholders. Based on Sheliefer and Vishny, (1997) corporate governance takes care of the ways through which the suppliers assure themselves to get return on the investment. That is "How do they guarantee that, managers do not steal the funds they supply or put money into bad projects". However there is a global consensus on the matter of objectives of excellent corporate governance i.e maximizing shareholders' value". Thus corporate Governance means the mechanism which helps to ensure that an organization accomplishes its objective while keeping in view in stake/interest regarding other stakeholder. From a business organization standpoint, the ultimate goal of an business firm is always to maximize the benefit of its investors Wang (2013).

Corporate Governance helps to ensure that this maximization of value really should not be at the cost of other stakeholders. Thus our objective regarding corporate governance, "The maximization regarding shareholder's value, but keeping in view the interest regarding other stakeholders". The stated explanation of SECP have payed the way to further look into the matter and explore the value relevance of accounting information in light of corporate governance mechanism installed in listed firms in Pakistan

1.4. Problem statement

The present study examines the impact of corporate governance mechanisms on value relevance of accounting information. Early research has examined the effect of different governance mechanisms in a single study Lin and Yang (2006). The role of corporate governance in addressing agency problem just isn't extensively examined in the literature even the effect of business governance is examined in a number of other issues. For instance, Dechow, Hutton, and Sloan (1996) examine the issue of corporate governance on security exchange commission enforcement steps, Klein (2002) examines the impact of corporate governance upon earnings management, and Anderson in addition to Bizjak (2003) verify the role of corporate governance in deciding executive compensation. Habib and Azim (2008) empirically investigate the impact of corporate governance on relevancy of accounting information. However, the impact of corporate governance on the value-relevance of accounting information remains unexplored in Pakistan. Presented the significance regarding economic statements that emblemizes organizations details to investors as well as public. The matter regarding value-relevance becomes really worth looking in case of firms listed in Pakistan.

1.5. Research question

This study strives to answer the following question.

What is the link between corporate governance mechanisms and value relevance of accounting information in Pakistani listed firms?

1.6. Research objective

This study strives to fulfill the following objective.

To investigate the link between corporate governance mechanism and the value-relevance of accounting information in firms listed in Pakistan.

1.7. Delimitation of the study

A lot of effort is made to conduct this study in way that can be useful for the readers and practitioners; however there is some limitation to the current study. This study takes into account only high capitalized listed companies that issue financial reports on regular basis. Furthermore, this study considers only non-financial firm that are listed in Pakistan. Another limitation is that this study only considered the companies that are listed only on the Karachi 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.

1.7 Significance of the study

The significance of this study is many folds. This study could not only provide the needs of manager or academicians but also provide valuable insight to regulatory bodies in governance structure. First of all, this study will help managers to understand agency conflict. Corporate governance is considered as a value- destructive strategy; hence, the emphasis is likely to be on improving corporate governance mechanisms to ensure that managers focus on their firms' core competencies to increase the value. Information relevancy is the most important factor for making effective economic decisions and heterogeneity of economic decisions base on the individual's level of information relevancy. Entire information consists of all the information and details required by any individual to understand this phenomenon explained.

Corporate governance has great importance close to the mechanisms through which the firm are directed and controlled in a sensible manner. The impetus for corporate governance is for the allocation of rights and responsibilities among the different participate of the firm, the Board, management, and other stakeholders. Corporate governance structure provides a basic theme through which the company's objectives are set and the resources of attaining those objectives and also monitoring the performance (OECD, 2004).

This study will help managers in managing agency relationship shareholders minimizing the agency problems. This will also help management as well as board of the company to make such decision that is in the best interests of shareholders of the company.

Efficient and profitable firm are important for the development of corporation in which different sector are involved. In the wake of recent financial turmoil, globalization brings severe changes and the regulation and technological advancement are enhancing the risk in the corporate sector as well as financial sector. The shareholder and stakeholder are fervently focusing on their investment in terms of return as well as the implicit performance of the company. In this situation, the corporate governance structure provide a unique solution and enable the companies to overcome the market perception, investor' confidence that is helpful in managing the agency problems between the management and the shareholder. After the recent financial tsunami and financial instability, OECD has issued a set of comprehensive corporate governance parameter for the corporate and financial sector to overcome their governance problem and for sustainable growth as the good corporate governance is the fundamental of stable and sustainable financial system (Ahmed, Duellman, and Meguid, 2006). This study will be helpful for the regulatory to formulate proper governance regulatory frameworks for firms listed in Pakistan.

1.8. Organization of the study

The study is organized as follows: The two chapters provide a detailed review of literature on corporate governance and accounting information in developed, developing and Pakistani market. The chapter three explains the methodology. Whereas results that are discussed in chapter four and finally the last chapter five will concludes the study.

CHAPTER 2

REVIEW OF LITERATURE AND HYPOTHESIS DEVELOPMENT

2.1. Review of Literature

Reliability and relevancy has two main accounting alternatives according to the conceptual framework of Financial Accounting Standards Board Burgstahler (1984). By using the market-based accounting research (MBAR) stock prices affected by the value relevancy of accounting information (Ball and Brown, 1968). Earnings are used as explanatory variables for finding security returns in framework of (MBAR). The theory of valuation examined the long term relationship between value relevancy of common stock and earnings (Miller and Modigliani, 1961; Graham et al., 1962). Ohlson (1995) empirically investigate the book value of stock along with the earnings on the basis of MBAR. The book value of equity and present value of expected future normal earnings is used as a proxy who is equal to beginning of year, the cost of capital multiplied with book value. (Berger et al., 1996; Burgstahler and Dichev, 1997; Barth et al., 1998) Relevancy of book value of equity is that value of the firm in which reveals liquidation value of the firm. The book value of equity can be used as proxy for present value of expected future normal earnings and as well as for liquidation value of the firm and also shows that the main attribute of financial reporting quality is relevancy of accounting information Collins et al. (1999). Most of the studies in the literature shows a positive support for the value relevancy of earnings (Kormendi and Lipe, 1987; Collins and Kothari, 1989; Easton and Harris, 1991) After the main contribution of Ohlson (1995) and Feltham and Ohlson (1995, 1996) the role of historical accounting numbers in valuation got considerable attention of the researchers. Lo and Lys (2000) reported that Ohlson model (OM) provide testable equation for recognition of several important variables in accounting like incorporating abnormal earnings, equity book values, the roles of accounting and non-accounting information and other informations. But managerial incentives for increasing their personal wealth lead them to biased accounting information to outside users.

Habib and Azim (2008) conducted a study on corporate governance mechanism and quality information by using a sample of top five hundred listed companies for the period of 2001 to 2003. The study revealed the affect of corporate governance on value relevance of accounting information. The study use three measure of corporate governance (board size, board independence and audit quality) and proxy of value relevance of quality information .The value relevance show the quality of information provided by management in financial statement and balance sheet analysis. The interaction term of EPS and LOSS are negative and a bit significant due to firm losses. Earnings and book value showing positive behavior in case of large firms because large firms are profitable, having strong internal control and audited by Big audit firms who confine earnings management (Becker et al., 1998). Earnings have negative affect because high leveraged firm has greater chance to defaulter. Earnings per share have positive and significant impact on board size and board independence. Earnings have no affect on audit quality. Book value is also positive and significant affect on board size and negative effect on board independence and audit quality. The association between firm value assuming and governance has strong relation to perform if the governance structure of the firms is becoming weak Hamelin (2008).

Vera Ogeh Fiador (2013) investigates the association between corporate governance and value relevance of financial information. The study used financial data for the period from

1997 to 2006 of all non-financial listed companies of Ghana Stock Exchange. In simple Board Composition is negative and insignificant the reason for this is that the firms listed in Ghana stock exchange have more non executive director on the board.CEO duality is negative and insignificant.

Malik and shah (2013) studied the relationship between corporate governance microeconomic variable and value relevance. They took two measures of value relevance and corporate governance for the period 2002 to 2011. They found that the quality of corporate governance and earnings per share and book value are positive and significant impact on stock price. The study also revealed that there is positive and significant affect of value relevance of book value, earnings on quality of corporate governance and mandatory adaption of IFRS.

Klein (2002) investigates the relationship between board independence, board size and audit quality and shows that audit quality is negatively related with board book value per share and abnormal accruals. Davison al (2005) investigates the relationship between audit comity, non-executive director on the board and earning management in Australia and shows that audit comity and non-executive director has negative relationship with earning management. Brown and Caylor (2006) used 52 variables for measuring composite governance and shows that corporate governance has positive role in measuring the firm value creation. Further they found that by increasing the voluntary disclosure of firms the information symmetry between managers and outside shareholders can be reduced. The interaction between corporate governance and corporate disclosure influence the value-relevancy of accounting information. Gul and Leung (2004) find that firms with separate CEO and Chairman provide more voluntary disclosure as compare to firms with CEO duality where CEO is also Chairman of the board.

Kyereboah-Coleman (2007) found that CEO had negative effect on value relevance in case of Australia and Kenya for Tobin's Q respectively. The interaction term of EPS and BS is negative and insignificant the reason is when firms is becoming larger the EPS is lose value relevant. The association between EPS and BI is positive and significant as the CEO is also chairman of the board. The finding shows that the market is highly efficient and greater valuation of the share and due to large number of independent director with the CEO act as chairman of the board. Net asset value has negative and insignificant effect on share price and board composition. CEO increases the net asset value per share when CEO is also board of the chairman.

Anthony Kyereboah-coleman (2007) conducted research on commercial governance and company performance by by by using a sample 103 stated companies from Ghana, South Photography equipment, Kenya and nigeria, and evaluation was done in a powerful panel data platform. The effect demonstrates the way and the level of impact of governance are affected by the performance solution (market value of frim). And considerable board improve commercial performance, so when no professional director are dominated on these table, it improve organization value.

Safdar A. Butt et, ent (2009) reviewed the true influence on possession construction and also corporate and business and business governance, about money framework of Pakistan shown businesses. The routine of computing commercial and business governance working were mother board size, board create, PRESIDENT couch duality and likewise impact on of guidance factors much like company measurements, and also earnings about firm's money method was also looked into, it turned out learned where table size is usually significantly associated with money framework as well as characterization of NEDs aboard, and also BOSS couch match and blend does not have any major romantic relationship money composition. The link analysis shows that BOSS chair duality and also managerial ownership usually are in a wrong way linked together with earning. Earning is usually in a wrong way linked together with financial debt and also to value ratio and also organization dimensions provides positive partnership together with financial debt financing.

Business governance and also performance has been examined by means of Rozina Shaheen et, ing (2003) focused to help develop the corporate and business governance rating, depending on governance routines accompanied by the actual listed businesses with Karachi stock market. They will does link corporate and business governance in order to organization performance utilizing 226 organization based upon 37 corporate and business governance element. They will got 5 performance calculate, by means of three categories: managing performance, worth (Tobin’s Q), and in addition shareholder commission. Apart from Tobin’s Q many organization performance assess possess his or her forecast positive regards wit gov-score, and are generally major inside results analysis, deciles analysis, as well as both equally, hinting in which in which organization in addition to somewhat weak governance are often somewhat fewer worthwhile, fewer important, and also commission less money for their shareholder. Each one of the a few organization was linked, and also acquired performance procedures together with each of the seven governance categories. It turned out located in which governance categories associated with Review, and also Table of Director, usually are very linked to good performance usually are; Review panel are comprised only of separate outdoors movie director, Review panel at least once every one fourth from the yr, many movie director attended no less than 75% of board assembly as well as acquired valid excuse pertaining to neo attendance, dimensions of board of movie director reaches minimum six, yet in excess of 15 associate. It turned out discovered in which board of movie director incorporates one or more separate movie director, and also shareholder election about company directors decided on to help fill up vacancies. Exactly the same review has been just lately carried out by means of Lawrence D. Darkish et, 's (2004), because he / she located the way in which of computing corporate and business governance by making use of G-index, he / she does depend on Gov-score to help functioning performance, worth and in addition shareholder commission pertaining to 2327 firms, and in addition located in which greater ruled organization are often to some extent far more advantageous, a complete more important, recommending that organization has poor governance are usually relatively less profitable, less important, and payment less overall to investors. Corresponding effects were demonstrated by Rozena Shaheen et, al (2005) in her research. The partnership results recommended that solid performance may very well be more highly correlated with Gov-score than with G-index. They'll related each aspect with performance measure, and learned that each owners traveled to at least 75% concerning up to speed gather, or received the valid authorization in relation to non-attendance perhaps, combined with the aboard is very handled through more than 50% independent exterior owners. It was documented that external owners is related to good firm performance. Attiya Con Javed et al. (2007) investigated that the quality of accounting information is strongly associated with corporate and business governance, can make clear accounting relevancy in a combination section of businesses in Pakistan Stock Exchange, and she also suggested that the quality information boost firm performance. Through the use of panel technique, panel data regression like a technique of view kajola et, al (2008), examined the connection between four management and business governance components (table size, plank independence, CEO duality, taxation committee) along with two stable overall performance measures Returning on value (ROE) along with income margin evening, of your taste of 20 or so Nigerian explained organization between 2000 along with 06. The actual end result affords the data of constructive significant relationship among ROE, and stand size, as well as chief executive status. The analysis also revealed the last results; that there can be a positive and significant relationship between ROE and chief exec position. Each significant marriage in between ROE, plank make up and review -panel. There is a positive and significant alliance between profit margin and main executive status. In existent literature documented that the financial information has positive correlation with different corporate measure. The result also implies that low quality accounting information has lead to decrease firm performance.

Robert and smith (2001) documented that financial accounting information affect the economic growth and corporate control mechanism. The study also revealed that financial accounting information is associated with economic performance. The interaction between corporate control and financial accounting information will eliminate the governance effect, and the interaction between domestic institution and financial will give new evidence of financial accounting information and economic value determinants.

Robert and smith (2001) documented that value relevance of accounting information affect the economic growth and corporate control mechanism. The study also revealed that association between corporate control and financial accounting information will eliminate the governance effect, and the interaction between domestic institution and financial will give new evidence of accounting information and economic value determinants.

Ahmadu Sanda et ing (2005) used pooled OLS regression evaluation on panel data for the period 1996 as a result of 1999, for an example of 93 firm listed around the Nigerian stock alternate, to observe the partnership between internal governance structure and firm fiscal performance. In addition to your view that separating the post involving CEO and Chair work and later the firm, the end result support need to help the board regarding five persons, commensurate with finding from various other countries. The result signifies that corporate sector should support company which may have not already done so, to split both articles. As opposed to the conclusions in developed countries, these outcome explain no association with facts to aid the theory that outdoor directors help promote solid performance. Another feature of the effect is the discovering that company run by emigrant Entrepreneurs has a tendency to perform much better than those run by native one.

2.1.1. Board Size/Composition

Eisenberg et, al (1998) conducted a study on the association between board composition and financial performance, using a sample of 784 strong firm ad 95 bankrupt firm from 1992 to 1994. The suggested that board size have negative and significant association with profitability which indicates that the smaller firm has poor coordination and miscommunication.

Renee B. Adam et, (2004) investigated the relationship in between table measurement and fiscal overall performance, by using a trial associated with consumer banking company in the course of 1995-1999. It is created the bank positioning organization composition and routines, usually are perhaps exogenous component that will come up with a larger table far more attractive to help BHCs than to help make company. This researcher document that will table measurement is significant relevant to characteristic associated with BHC composition. Some proof of a good effect in between Tobin's Queen and the greater part outdoors table can be found. Probably the most unexpected end result is to obtaining of the optimistic connection in between table measurement and Tobin's Queen which often not like the evidence pertaining to non-financial company. It was also found that there is no association between board size and ROA. The Uk offer an interesting company setting, because a GREAT BRITAIN snowboards participate in the weak checking role and thus any bad result connected with huge mother board dimension will probably mirror the fail to function properly in the mother board advisory instead of checking role.

Paul M. Guest (2009) examined empirically the affect of board size on accounting firms (ROE ROA) for a large sample of 2746 firms over 1981-2002. The effects exposed that aboard size features a negative impact regarding the amount of on the inside and external surfaces overseer, the number of exterior features a drastically negative along with powerful impact. The particular impact regarding the amount of insiders can also be negative nevertheless isn't always drastically as a result, with respect to the genuine functionality evaluate. Intended for just about any altering relative before long, the particular aboard aspect functionality relative substantially negative prior to and pursuing ones BRITISH business governance reforms while using the 1990s.

Bernd frick et, al (2009) analyzed the effect Board size, and Board composition which shows a negative and significant effect of panel size, whenever using total come back to shareholder, and come back on investment capital as dependent variable, but have no result for Tobin's Q, and return on equity dependent variable.

Rachel Hayes et's (2004) documented the variation linked with company's board of directors for standard along with poor businesses during 97 along with 1998. The researcher revealed that the number of deviation have positive association with actual group on the volume of committees, in presence of each committee. Number of committees confidently related to the volume of directors. Amount of directors also related to firm size. A firm that has a higher CEO control have less committee function performs from the board. Firm performance is adversely correlated to percent of share placed by independent directors but it can be help the independent director and have significant association with percentage of outside director.

2.1.2. Board Independence

Kim-Ming Wan (2003) evaluated that whether the directors can take intrest in business and can better the firm performance. He determined four hundred ninety five companies with managerial payment data. The effect show that more representation of current company's officials on the table of director decrease CEO pay, Further there can be an evidence to point that 3rd party director do not improve financial performance.

Manu Gupta as well as L. areas (2008) found that they are simply found significant negative stock cost repose statistically. Significance distinctions inside responses exit around director resignation form. Outside directors resignation (or decrease in the ratio regarding unbiased directors) result insignificant negative extreme results. Shareholder do not, however, act in response significantly to insider or grey director resignation (or even to increase or no change in the ratio of impartial directors). The regression demonstrates, as institutional possession increase, the negative a reaction to reduction in table freedom is mitigated. In amount our conclusions support the view that buyers do may actually value board self-reliance. Fernando Lefort et's (2008) examined precisely what set up the particular makeup products linked with company's plank within wording linked with greater ownership understanding, and also whether or not independent directors are necessary as an interior governance method with organizations along with better possession awareness. And also promotes like corporations whose controlling shareholder use voting legal rights, so as to choose specialist organization directors. By employing virtually any four- 12 months, 100 sixty company's cell data files, and also endogenous manage, this specific cardstock grips these kinds of a few connected issues, acquiring an expansion within your ratio connected with exterior directors has effects on company worth. Moreover, of which likely reveals far more made worse organization conflicts, measure since minimal chance concerning cash flow. From the 1990's and the past, countries around the planet earth have witnessed phone calls/or requires, to get more outdoor directors on publically exchanged companies planks, even though extant studies find no significant results between exterior consultant and accounting details. Because Jay Dahaya et al examined (2003) relationship between improvements inside mother board structure, and also management and business efficiency in Britain, above enough time 1989-1996, an interval that could remain guide through the Cadbury statement dialing regarding a minimum of several outdoors company directors, regarding publically-traded corporation. Some of the research associated with improvements inside mom board composition and also operating efficiency, show the add-on linked with out-of-doors company directors to help management and business mom mother board coincided with an enlargement inside running efficiency. The end result claim that adding outdoors company directors clearly, a minimum of too many up, produced far better efficiency however The UK organizations and also advanced advantage regarding shareholder. The final result perform show that, The UK organizations that used in help 3 outdoors company directors to be able to adjust to this Cadbury recommendation seasoned an important enhancement inside effectiveness.

Christine Panasian et ing. (2003) looked at the impression of the Dey committee guide, on the management and business overall performance connected with publically listed Canadian organizations. Many people took three hundred organizations composed 1995

TSE Directory since main dataset, since the three hundred major Canadian organizations because of the industry capitalization listed on the Toronto stock market of which yr. Particularly, they concentrate the specific recommendation of which snowboards encompass nearly all of self-sufficient company directors. The consequence supply evidence of which adopting of the recommendation favorably impacted overall performance, not only reserved pertaining to organizations of which turned grievance, also for everyone organizations that were currently being generally grievance, and also improved the ratio connected with outsiders regarding the mother board. Really multi vitiate placing; it had been located of which concurrence with Dey of a important improve inside Q, among organizations acquiring low pre-dye common advanced connected with Q. The final results claim that, the ratio connected with outsiders to the mother board is usually much more very healing pertaining to organizations of which most likely to own organization problem. A similar group of organizations seemed to be adopted via 1993 as a result of 1997, whether or not we were looking at area of the index inside the years previous to or maybe pursuing 1995. This particular review sheds a number of lighting regarding the regards between screen structure, and also overall performance between organizations listed regarding the Toronto inventory transform, simply by seeking the impression connected with document qualification that really encourage larger mother board freedom. Particularly, evidence turned out of which concurrence while using the Dey recommendation in relation to mother board structure, specifically larger portrayal regarding the mother board connected with publically dealt agency simply by outdoors company directors, favorably motivated monetary overall performance. Put simply, improving outsiders much more good for organizations of which are usually to own organization problem. Inside a similar train of thought affair review research prove a confident story effect to help outdoors mother board associate appointment inside the post-Dey time which is centered among this subset, towards the level of which, a better fraction on the mother board is usually linked to larger mother board self-sufficiency and also much better checking. Facts claim that, mandating or maybe stimulating organizations to raise outdoors mother board participation, has the designed impression reaping benefits for individuals organizations of which, are usually to realize via much better oversight.

Rosalina Shaker (2008) empirically reviewed the relationship between mother board structure and also monetary activities connected with property connected with organizations, listed on Busra Saham, Malaysia. Your research problem that has been primarily based pertaining to theory method seemed to be, “Does mother board structure of a agency, particularly, mother board dimension, fraction connected with account manager, influence agency monetary overall performance?”

The actual discovering provides evidence the industry has some sort of inclination pertaining to smaller snowboards that has a more compact volume of outdoors company directors, however with increased account manager working company directors. To supply some sort of significant interpretation to the illustrative figure, the figure pertaining to Malaysian property organizations are usually compared with additional organizations elsewhere. Board that has a necessarily mean connected with 7 company directors, is comparable to of which connected with Singaporean and also Foreign organizations, however is regarded as smaller in case review to help individuals connected with American, English, Canadian and also Western organizations. The forex market prefers an inferior to avoid economic info asymmetry, and to allow the key good thing about powerful control clearly.

Sanjai Bhagat and also Bernard Black (1999) surveyed the info on the partnership between mother panel structure, and company efficiency also. Board connected with Owners connected with American open organizations who have most of self-sufficient company directors react differently, in many means, than snowboards with this kind of bulk. Some unique could improve agency benefit, additional may perhaps lower agency benefit. Alternatively, there is a number of study of which, corporation with supermajority-independent planks are likely to be a lesser number of beneficial than other sorts of corporation. Which encouraged of which, it will be great for corporation to obtain modest amount of inside corporation company directors. The actual located a poor relationship relating to the degrees of self-sufficiency. Most of these final results were being motivated simply by poor overall performance on agency with supermajority-independent snowboards. No powerful relationship seemed to be located between mother board self-sufficiency, and also agency monetary agency connected with additional agency. A top ratio connected with self-sufficient company directors, likewise correlate with sluggish Increase. The current evidence implies some sort of probable unfavorable relationship between supermajority self-sufficient snowboards agency monetary overall performance, however seldom proves of which this kind of relationship exists.

2.1.3. Audit quality

Outside director were financial experts who efficiently monitor the activity of audit committee of the firm. As financial expert, director was able to monitor and detect any kind of manipulation in financial reports (e.g. Abbott et al., 2002). With the improved in board obligation, certain task were designated to sub-committee. The essential board choice comes at the board stage, such as audit committees kesner (1998) and vance (1983). Audit committee help in the improvement of the reliability of the auditing procedure as described by the Klein, (2002) and the quality of economical confirming as described by McMullen, (1994). Audit committee promotes inner tracking by improving the stage of reliability to the economical auditing procedure as described by the work of klein, (2002). Dechow et al. (1996) review that the proportion of financial frauds in companies without audit committee was higher as compared to companies with audit committee.

Mahdi Salehi (2008) documented the relation of corporate governance structure, and independence. This empirical analysis signifies that numerous component influence exam self-reliance with Iran. The results indicate in which, there's a huge difference concerning a auditors as well as bank with exam self-reliance, next theory ended up identified; exam self-reliance is lower as a result of home attention with the auditors. The actual home attention cutting down this exam self-reliance is usually recognized along with from the larger weighted level from the bank, as opposed to auditor along with the auditor comprehend reduced actual worth for economical thought as opposed to bank. Moreover, this current empirical analyze reveal the lowest a higher level auditor self-sufficiency, and also this level indicate your pathetic circumstances inside inadequate review practice. In case auditor eulogize review as being a frighten behave advisors, bank advertising alternative condemn the idea as being a perfunctory lawful work empty by virtually any believability, Realizing this failing connected with review practice, mcdougal possess set out when washing the organization connected with Iran throughout the very much hyped company governance, the effectiveness of that's even now below hesitation requiring proactive institutional platform with Iranian earth. Marion Hutchinson et al (2009) looked into if thez relation in between interior examine good quality, as well as human resources facts, is actually connected with firm attribute involving facts asymmetry, uncertainness (growth opportunity), as well as particular governance adjustments (audit panel effectiveness). Info about interior examine good quality was collected as a result of mail questioner review involving general public shown corporations inside Malaysia during 2003. Your multiplicative type was taking on for tests your interactive results involving interior examine good quality (IAQ), increase (market for you to guide worth involving equity), as well as examine panel liberty (ACI) about the firm's efficiency (ROA). The actual result shows that effective governance, inside period involving interior examine as well as the examine panel is actually it all depends about the challenges connected with firm surroundings. An examine panel having a majority of Not for executive administrators any restrict your performance involving interior audits, which usually impact firm efficiency. However, the results using this examine proves which, the insider took over examine panel may cause conflict on the interior auditor which usually, subsequently, has an adverse impact on firm efficiency. This particular shows that the biggest thing is just not your independent of the examine panel, both equally alternatively the right mixture of fellow member while using needed knowledge to judge your challenges experience simply by firm. Martin Bariff (2003) done a customer survey connected with its participant firms to look for the which are the recent procedures, along with the wish exercise, along with the difference in connection with interior examine self-reliance, range, as well as Sarbanes-Oxley submission overseeing. Seven analysis prepositions have been formulated. Generally speaking, the inner auditors mentioned the examine panel must be far more practical with interior examine exposure, as well as fundamental examine professional staff subject. This Chicago, il 11A section began a research examine to view its member's recent procedures, as well as preferred procedures to examine self-reliance, governance. Exam range, as well as Sarbanes-Oxley take action (SOA) enactment. One particular design intended for end result obviously display that will, interior auditor desire an even more lively purpose with the examine panel, along with a a smaller amount lively purpose with the fundamental fiscal reps (CFO) pertaining to examine exposure, examine rent authorization, as well as CAE staff subject. These kind of email address details are in keeping with the 11a Gain examine 2002. The actual result also uncovers that will, the inner examine range need to be extensive to deal with organizing enterprise concern, and also increasing a few submission audits. There exists sturdy assistance connected with interior examine to play an important purpose with overseeing SOA submission, within a helpful fashion. These kind of final results suggest the Chicago, il place interior auditor surely is actually dedicated to a successful conclusion.

Anwar Ersus. Ahmed et ing (2006) forecast the far more significant purchaser would be to the auditor's company the higher the likelihood that will auditor self-reliance is actually composed along with the intense is actually purchaser human resources. That they does test out prediction having a regression connected with unnatural accruals for the way of measuring purchaser significance (influence) as well as a couple of command variable. That they test out for any change with relationship within a post SOX-period, relative to a pre-SOX time period. That they anticipate locate a considerable optimistic relationship in between unnatural accruals as well as purchaser. On top of that because on the significant change within the fiscal setting soon after 2001 (such since enactment on the Sarbanes-Oxley act) they will forecast, as well as located this kind of relationship few days within the post-SOX setting. Additionally, cross punch sectional evaluation, they will located the optimistic relationship in between unnatural accruals as well as purchaser significance really exist with the pre as well as post –SOX time period intended for vulnerable governance corporation. Total, the end result has been in keeping with the prediction connected with fiscal hypothesis connected with auditor self-reliance.

2.2. Theoretical Framework and Hypothesis Development

Corporate governance should provide premium quality accounting information by lowering opportunistic earnings management methods of managers. An comprehensive body of empirical books documents the existence of opportunistic earnings management. Once mangers manage earnings for opportunistic purposes, accounting profits become a less reliable measure of a business financial performance Beekes and Brown (2006). An effective corporate governance system ensures the provision of credible accounting information to financial statement user groups by constraining opportunistic earnings management by managers. Corporate governance can help investors by aiming the eye of professionals with the interests of shareholders and boosting the reliability of economic information and the integrity of the financial reporting process (Watts and Zimmerman, 1986). Empirically, Klein (2002) discovers a negative relationship between AC- and board-independence and abnormal accruals. Davidson et al. (2005) show that two of the company governance attributes, namely, a majority of non-executive administrators on the board and the AC are in a negative way associated with the probability of earnings management in Australia. Larcker et 's. (2007), on the other hand, realize that a comprehensive set of different governance measures explains only 0. 6-5. 1 every cent of the cross-sectional variation of the based mostly variables, like abnormal accruals, Tobin's Q, accounting restatements, etc. Larcker et 's. (2007) attribute the inability to find any regular relationship between corporate governance measures and organizational performance to the difficulty in making reliable and valid measures for the corporate and business governance construct. Brown and Caylor (2006) find support for the positive role of corporate governance procedures in value-creation based on a composite governance check of 52 variables. Dark brown and Caylor (2006) also show that the two most significant governance categories are the board of company directors, and executive and overseer remuneration. Secondly, the connection between corporate governance and corporate disclosures can also influence the value-relevance of accounting information. Increased voluntary disclosure should reduce information asymmetry between managers and outdoors shareholders and that this, in turn, will restrict earnings management opportunities for managers. Using a synchronous equation framework, Lobo and Zhou (2001) find data steady with this speculation. Gul and Leung (2004) show that organizations seen as a CEO duality (CEO is also the Chairman of the board) provide less voluntary disclosures compared to businesses where these two positions are separate. Nevertheless, this relationship is weakened for organizations with higher expert outside directors on the board. Based on the argument that effective corporate governance is important for good quality financial reporting, the following testable hypothesis is developed:

H_1: Corporate governance is positively associated with value-relevance of accounting information.

CHAPTER 3
REASEARCH METODOLOGY

3.1. Data Description

The study aims to explore the relation between corporate governance and value relevance of accounting information. The sample has been selected from companies listed in Pakistani Stock Exchange comprising of 81 companies from 2005 to 2014. Initially the study considered a sample of 100 companies but later on, it was reduced to 81 on the basis of data availability. The data is obtained from various sources such as Pakistan Stock Exchange and from the websites of companies. Data on companies is obtained from the annual reports and balance sheets. The data includes only non-financial firm listed in Pakistan from various industries such as textile, cement, Telecommunication, Steel industry, Oil companies, refinery industry. The motive behind selecting non-financial firm is that the financial firm such as bank, asset management companies, insurance companies, have different financial structure from those of non-financial firms. Hence this is study limit to non-financial firm only.

3.2. Variables Specification

3.2.1. Dependent variable

Stock price

The closing share value at the end of year for each company is taken as dependent variable.

3.2.2. Independent variable

Corporate governance is measured through three variables in this analysis. These are board independence, board size and audit quality. Value relevance of accounting information is measure through two distinct measure i.e Earnings per share (EPS) and Book value per share (BVPS).

3.2.2.1 Board independence

Board independence is measured as the ratio of number of independent board members to board size (BSIZE). Non-executive are considered to be those outside directors who may serve the interest of outside shareholder as well as the monitor the company (Fama,1980). It is also measure in the ratio form, a ratio from outside directors to the total directors of the firm (Iqbal, 2013)

Board size

BSIZE is measured as the total number of board members (kurawa and Ishku, 2014)

Audit quality

An audit committee is a committee in affirm that monitors the financial reporting process and keep proper check and balance on the financial reporting Beryan et al, (2004). Audit committee independence is measured by the ratio of number of independent directors on the audit committee by total numbers of audit committee member.

Earnings per share

Net income after tax divided by total number common share outstanding is taken as a proxy for value relevance.

Book value per share

Total equity of common shareholders divided by total number of common share outstanding is also considered as another proxy for value relevance.

Control variable

The following control variable is also the part of this study

Growth

Growth is defined as the annual percentage of growth in sales of the companies.

Profitability

Profitability is measured as net profit of the company (Batool and Javiad, 2014).

Firm size

The variable firm size is measured taking the log of total asset of the firm.

Leverage

The variable firm leverage measure from debt to equity ratio

3.3. Model specification

The objective of the current study is to analyze the impact of corporate governance on value relevance of accounting information. It can be described in the following way. The dependent variable is share price and the independent variables are corporate governance and value relevance of accounting information. Board size, board independence and audit quality is the proxy of corporate governance and earnings per share and book value per share is the proxy of value relevance of accounting information. In this model we use interaction term are used to find out the effect of corporate governance mechanism on value relevance of accounting information (fiador, 2013). The model can be written as

$$
\begin{aligned}
Pi,t = C &+ \beta_1 EPS_{i,t} + \beta_2 BVPS_{i,t} + \beta_3 BI_{i,t} + \beta_4 BS_{i,t} + \beta_5 AQ_{i,t} + \beta_6 EPS * BS_{i,t} \\
&+ \beta_7\, EPS * BI_{i,t} + \beta_8\, EPS * AQ_{i,t} + \beta_9\, BVPS * BS_{i,t} + \beta_{10} BVPS * BI_{i,t} \\
&+ \beta_{11} BVPS * AQ_{i,t} + \beta_{12}\, LOSS_{i,t} + \beta_{13}\, SG_{i,t} + \beta_{14}\, FL_{it} + \beta_{15}\, FS_{i,t} \\
&+ \beta_{16}\, EPS * LOSS_{i,t} + \beta_{17} EPS * FL_{i,t} + \beta_{18} EPS * FS_{i,t} \\
&+ \beta_{19}\, EPS * SG_{i,t} + \beta_{20} BVPS * LOSS_{i,t} + \beta_{21} BVPS * FL_{i,t} \\
&+ \beta_{22}\, BVPS * FS_{i,t} + \beta_{23}\, BVPS * SG_{i,t} + \varepsilon_{i,t}
\end{aligned}
$$

Where, Pit is the price of a share of firm i at the end of year of each company. EPSit is the reported net profit after tax (NPAT) but before abnormal items per share of firm i for year t. BVit is the book-value per share of firm i at the end of year t. Although it is normal in value-relevance research to work with stock price after the release of the financial statements, post-year events could add noise to the measurement process. The sample has recently been selected from companies outlined in Pakistani Stock Exchange comprising of 81 companies, which can be larger and should be closely followed by analysts, it is expected that financial statement information reaches public domain some time before the financial statements are released, after the monetary year end. Furthermore, the disclosure of half-yearly results allows shareholders to determine the likely total annual number to be reported. Subsequently, the current uses share price at the end of fiscal year as the dependent variable. The governance variable are STRUCTURE, INDEPENDENCE and Audit Quality are independent and coefficients b6-b8 and b9-b11 are earnings per share and book values per share interacted with these three factor, correspondingly if strong corporate governance results in value-relevant accounting information then these coefficients should be positive and significant. Nevertheless, it should be mentioned that the interaction conditions in formula represent interaction among continuous variables, and therefore not amenable to simple interpretation.

3.4. Method

The current study considered only non-financial firm. The study uses OLS, panel data technique for the purpose of analysis. In panel data we can observe different cross sectional units for several years, can be pooled together; that will permits to increase the sample size. However such analysis cannot be run by only time series or cross sectional data. Hence panel data technique is best technique where both time series and cross sectional data at same time can be estimated. There are three methods involved in panel data analysis can be performed, which include common effect, the fixed effect and random effect model. For the every model, there is a separate way through which each model is tested and its validity is confirmed.

3.4.1. Common effect model

The main assumption of this model is that it says there is no distinction among the intercept of all the cross section, meanings beta is same for all cross section, so common effect model is model will be the best model for analysis. The common effect model can be written as follow:

$$Y_{i,t} + \beta_0 + \beta_{\ x,i,t} + \ \ \varepsilon_{i,t} \dots\dots\dots\dots\dots..(1)$$

3.4.1. Fixed effect model

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

$$Y_{i,t} + \beta_{i,t} + \beta_{\ x,i,t} + \ \ \varepsilon_{i,t} \dots\dots\dots\dots\dots..(2)$$

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 and time period, but here in this model it is check whether intercept follow a systematic pattern or not. It assumes that beta is not meaningful because it follow a random path. The model of random effect model can be written as:

$$Y_{i,t} + (\beta_0 + \mu) + \beta_{\ x,i,t} + \ \varepsilon_{i,t} \dots\dots\dots\dots\dots..(3)$$

To choose between fixed effect model and random effect model the Housman test is used. The test yields a significant value then fixed effect model is used. Otherwise the random effect model is applied.

CHAPTER 4
RESULT AND DISCUSSION

4.1. Empirical Results

4.1.1 Descriptive Statistics

Table 4.1: Descriptive Statistics

	PRICE	EPS	BVPS	BI	BS	AQ
Mean	0.027105	8.359226	1.366494	0.212159	8.200898	0.160494
Median	0.061791	4.200000	0.732260	0.000000	8.000000	0.000000
Maximum	0.806411	52.19000	6.518625	0.666670	12.00000	1.000000
Minimum	-0.962196	-12.90000	-0.063470	0.000000	7.000000	0.000000
Std. Dev.	0.459089	15.42235	1.634611	0.255186	1.502447	0.367270
Skewness	-0.355730	1.468440	1.865688	0.551807	1.139274	1.849850
Kurtosis	2.612945	4.790055	5.764793	1.602174	3.214815	4.421946
Obs.	891	891	891	891	891	891

Descriptive statistics of all variables during the study period 2005 to 2014 are shown in the table 4.1.1. The mean value of share price is 0.02 and its standard deviation is 0.45. Maximum level of price during the observed period is 0.80 and its minimum level is -0.96. The average value of EPS during the study period is 8.35% and the possible deviation from average is 15.42. The maximum level of EPS is 12.19 while its minimum level is -12.90. Mean value of BVPS is 1.36 while its standard deviation 1.63. The minimum level of BVPS during the observed period is -0.06 and its maximum level is 6.51. The mean value of BI is

0.21 and its standard deviation is .25. The maximum level of BI is .66 and its minimum level is 0.00. The mean value of BS is 8.20 and its standard deviation is 1.50. The maximum level of BS is 12.00 and its minimum level is 7.00. The average value of AQ is 0.16 and the possible deviation from average is .36. The maximum level of AQ is 1.00 while its minimum level is 0.00.

Price is negatively skewed while all other variables are positively skewed. 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. Price and BI indicate the platykurtic behavior while all other variables are showing mesokurtic behavior.

4.1.2 Correlation Analysis

Table 4.2: Correlation Analysis

	PRICE	**EPS**	**BVPS**	**BI**	**BS**	**AQ**
PRICE	1.000000					
EPS	-0.048611	1.000000				
BVPS	0.013627	0.068777	1.000000			
BI	-0.012681	0.039289	0.014813	1.000000		
BS	0.025749	0.046053	0.069394	0.015723	1.00000	
AQ	-0.027173	-0.03439	-0.05357	-0.01478	-0.09922	1.0000

Table 4.2 shows the results of correlation analysis. Share price has significant negative relationship (-0.048611) with EPS. It means that when share price increases the EPS will decrease. BVPS has significant positive relationship (0.013627) with share price.BI has significant negative relationship (-0.012681) with share price while BS has significant positive relationship (0.025749) with share price. AQ has significant negative relationship (-0.027173) with share price.

BVPS, BI and BS have significant positive relationship (0.068777, 0.039289, 0.046053) with EPS while AQ has significant negative relationship (-0.034397) with EPS. BI and BS have significant positive relationship (0.014813, 0.069394) with BVPS while AQ has significant negative relationship (-0.053578) with BVPS. BS has significant positive (0.015723) while AQ has significant negative (-0.014781) relationship with BI.AQ has also significant negative relationship (-0.099222) with BS.

4.1.3. Regression analysis

The regression analysis shows the impact of corporate governance on value relevance of accounting information of eighty non-financial firm listed at Pakistan Stock Exchange. The result also controls variables on value relevance of accounting information. The results are presented in the following table.

4.1.3.1. Valuation Model

Table 4.3: Valuation Model

Variable	Coefficient	Std. Error	t-statistic	Prob.
CONST	3.454503	0.053392	64.70077	0.0000
EPS	0.003278	0.001543	2.124106	0.0339
BVPS	0.002010	0.001365	1.472086	0.1414

In the above table Earnings per share and book value per share is regressed with share price to determine the relation between accounting information and share price to find out the effect of accounting information on share price. The results shows that Earnings per share has positive and significant impact on share prices while Book value per share has positive but insignificant on association with share price. Which indicate that Earnings is most important factor of Pakistani markets to valuation of share of investor. Equity valuation has two important role in the market one is to provide information about future earnings and the other is the present of less earnings or in case of liquidation the book value of equity is value relevant Collins et al. (1999).

4.1.3.2. Common Effect Model

Table 4.4: Common Effect Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Constant	4.22273	0.406188	10.39599	0
EPS	-0.02242	0.02025	-1.10713	0.2685
BVPS	0.024239	0.055115	0.439778	0.6602
BI	0.006688	0.212028	0.031545	0.9748
BS	-0.14266	0.037227	-3.8321	0.0001
AQ	-0.24284	0.166919	-1.45484	0.1461
EPS*BI	-0.00245	0.005793	-0.42264	0.6727
EPS*BS	0.003727	0.001254	2.97277	0.003
EPS*AQ	0.000653	0.00524	0.124638	0.9008
BVPS*BI	0.034291	0.036754	0.932995	0.3511
BVPS*BS	-0.00237	0.009609	-0.24625	0.8055
BVPS*AQ	0.026603	0.05633	0.472268	0.6369
LOSS	0.213226	0.123745	1.723113	0.0852
FL	0.027446	0.030611	0.896618	0.3702
FS	0.07494	0.082688	0.906301	0.365
SG	-0.19502	0.187167	-1.04195	0.2977
EPS*LOSS	-0.01148	0.005577	-2.0592	0.0398
EPS*FL	0.0009	0.001017	-0.88802	0.3748

EPS* FS	-0.000486	0.003815	0.127464	0.02986
EPS*SG	0.000447	0.004804	0.093042	0.9259
BVPS*LOSS	-0.00673	0.018948	-0.35504	0.7226
BVPS*FL	0.002943	0.009624	0.305761	0.7599
BVPS*FS	-0.00146	0.014683	-0.0997	0.9206
BVPS*SG	-0.02428	0.03587	-0.67691	0.4986
Adjusted R^2	0.053523			
Prob. (F-stat)	0.001547			
Durbin Watson	0.303609			
Cross section	90			
Observation	891			

The adjusted R square of common effect model is 5 percent, which mean that only 5 percent changes in dependent variable is explained by independent variable. In the table Earnings per share and Book value per share have effect on share price. Similarly the variable board independence has positive and insignificant while board size has negative and significant relation with share price. The interaction term (EPS*BI) board independence and audit quality (EPS*AQ) has negative and insignificant impact Earnings per share while board size (EPS*BS) has positive and significant relation with Earnings per share. Moreover the interaction term board independence (BVPS*BI) and audit quality (EPS*AQ) has positive and insignificant while board size (BVPS*BS) has negative and insignificant association with Book value per share. The control variable profitability and firm size has negative and significant effect on Earnings per share while sales growth and firm leverage has positive and insignificant relation with Earnings per share. In case of Book value per share the variable profitability firm size and sales growth has negative, and firm leverage has positive and insignificant association with Book value per share.

4.1.3.3. Fixed effect model

Table 4.5: Fixed Effect Model

Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
Constant	4.23156	0.447134	9.46374	0
EPS	-0.0297	0.016066	-1.84872	0.0549
BVPS	-0.08845	0.047499	-1.8621	0.063
BI	0.022603	0.152048	0.148659	0.8819
BS	-0.27725	0.042256	-6.56109	0
AQ	-0.1395	0.121584	-1.14737	0.2516
EPS*BI	-0.00011	0.004017	-0.0266	0.9788
EPS*BS	0.002372	0.001116	2.124771	0.0339
EPS*AQ	0.006398	0.003757	1.702774	0.089
BVPS*BI	0.008533	0.030089	0.283596	0.7768
BVPS*BS	0.014958	0.008329	1.79594	0.0729
BVPS*AQ	0.0167	0.040608	0.411243	0.681
LOSS	0.291961	0.107073	2.726759	0.0055
FL	-0.0135	0.0283	-0.47705	0.6335

FS	0.42653	0.089969	4.740845	0
SG	-0.15939	0.132344	-1.20437	0.2288
EPS*LOSS	0.008684	0.004998	1.737401	0.0427
EPS*FL	0.000912	0.000835	1.092722	0.2749
EPS* FS	0.001167	0.002913	0.400589	0.6888
EPS*SG	-0.00337	0.003371	-0.99947	0.3179
BVPS*LOSS	-0.0154	0.014524	-1.06023	0.2894
BVPS*FL	-0.00636	0.007036	-0.90443	0.366
BVPS*FS	-0.0036	0.01056	-0.34122	0.733
BVPS*SG	-0.0266	0.02651	-1.00334	0.316
Adjusted R^2	0.617358			
Prob. (F-stat)	0.000000			
Durbin Watson	0.790894			
Cross section	90			
Observation	891			

The adjusted R square of fixed effect model is 61 percent, which mean that 61% variation in dependent variable is explained by independent variable. The table shows that the governance variable has significant impact on value relevance of accounting information. In the above table first we regress the Earnings per share and book value per with share price in result of regression shows that Earning per share has significant impact on share price but Book value per share has insignificant relation with share price. The interaction (EPS*BI) board independence has negative, and audit quality (EPS*AQ) has positive and insignificant impact on Earnings per share while board size (EPS*BS) has positive and significant relation with Earnings per share. Moreover the interaction term board independence (BVPS*BI) and audit quality (EPS*AQ) has positive and insignificant while board size (BVPS*BS) has negative and insignificant association with Book value per share. The control variable profitability has positive and significant effect on Earnings per share. However, firm leverage and firm size has positive, while sales growth has negative and insignificant relation with Earnings per share. In case of Book value per share the variable profitability, firm size, firm leverage and sales growth has negative and insignificant association with Book value per share. Now to choose between common and fixed effect model, to know whether the common or fixed model will be appropriate, as both model have different assumption to be selected. For this we run likelihood ratio test, which have null and hypothesis.

4.1.3.4 Likelihood Ratio Test: (F test)

This test is applied to find out which model is appropriate; common or fixed model, the null hypothesis for (Ho) for the test is that all the cross sections have common intercept and the alternative hypothesis is that intercept is different for each cross section. The result is given in the following table.

Table 4.6: Redundant Fixed Effects Tests

Effect test	Statistic	D.F	Prob.
Cross section F	1.359951	(89,778)	0.0195
Cross-section Chi-square	128.835148	89	0.0037

From the above table, the probability of cross section is significant, which mean that the study reject the null hypothesis and accept the alternative hypothesis, which mean that the appropriate model is fixed model effect model as the probability value less than 5% significant level. Moving towards the Hausman test, the study must have to estimate the random model to choose the appropriate model to choose between fixed and random effect model.

4.1.3.5. Random effect model

Table 4.7: Random Effect Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Constant	0.214239	0.300106	-0.713878	0.4755
EPS	0.037843	0.015345	2.466250	0.0138
BVPS	-0.010896	0.142674	-0.076369	0.9391
BI	-0.405112	0.202685	-1.998732	0.0459
BS	0.048387	0.036236	1.335348	0.1821
AQ	-0.060334	0.056327	-1.071144	0.2844
EPS*BI	-0.003793	0.001775	-2.136259	0.3329

EPS*BS	0.025510	0.011256	2.266459	0.0237
EPS*AQ	0.001622	0.003023	0.536418	0.5918
BVPS*BI	-0.000228	0.021006	-0.010848	0.9913
BVPS*BS	0.113920	0.159160	0.715759	0.4743
BVPS*AQ	0.006384	0.029688	0.215020	0.8298
LOSS	0.029606	0.045970	0.644029	0.0347
FL	0.037002	0.086060	0.429956	0.6673
FS	0.004213	0.015914	0.264726	0.7313
SG	-0.029696	0.036025	-0.824324	0.0400
EPS*LOSS	-0.000352	0.002166	-0.162720	0.0508
EPS*FL	-0.001087	0.000782	-1.390936	0.6246
EPS* FS	-0.002613	0.001769	-1.477201	0.0542
EPS*SG	-0.000499	0.003955	-0.126141	0.8996
BVPS*LOSS	-0.006817	0.020888	-0.326358	0.7442
BVPS*FL	0.004575	0.008296	0.551473	0.5815
BVPS*FS	-0.001413	0.017708	-0.079817	0.9364
BVPS*SG	-0.037904	0.038135	-0.993935	0.3205
Adjusted R^2	0.71591			
Prob. (F-stat)	0.000001			
Durbin Watson	0.656776			
Cross section	90			
Observation	891			

The adjusted R square of Random Effect Model is 71 percent which mean that 71% variation in dependent variable is explained by explanatory variable. The table shows that the governance variable has significant impact on value relevance of accounting information. In the above table first we regress the Earnings per share and book value per with share price in result of regression shows that Earning per share has significant impact on share price but Book value per share has insignificant relation with share price. The interaction (EPS*BI) board independence has negative, and audit quality (EPS*AQ) has positive and insignificant impact on Earnings per share while board size (EPS*BS) has positive and significant relation with Earnings per share implying a higher market valuation for firms possessing good quality governance. If the corporate governance structure improves the credibility of financial information to market participants, then these coefficient should be positive and significant Habib and azim (2008). Moreover the interaction term board independence (BVPS*BI) has negative, audit quality (EPS*AQ) and board size (BVPS*BS) has positive and insignificant association with Book value per share.

The control variable profitability and firm size has negative and significant effect on Earnings per share. However, firm leverage and sales growth has negative and insignificant relation with Earnings per share. In case of Book value per share the variable profitability, firm size, and sales growth has negative while firm leverage has positive and insignificant association with Book value per share.

4.1.3.6. Hausman test

Table 4.8 Hausman

Effect test	Statistic	D.F	Prob.
Cross-section Chi-square	26.600346	37	0.2734

The null hypothesis of the hausman test is that random effect is consistent and efficient and the alternative hypothesis is random effect is consistent and random effect model is more suitable. From the above result it is cleared that value of probability is insignificant and greater than 5 percent, above the significant level, hence the study accept the null hypothesis and reject the alternative hypothesis, indicating that the appropriate model is random effect model. Hence this study considering random effect model as their final model to be analyzed. From the hausman test, it is decided that the appropriate model of this study is fixed effect, which can be discussed below.

4.2. Discussion of result

Table 4.7 indicates that earning per share has significant positive impact on share prices with probability 0.0138 and coefficient 0.037843. Book value per share, board size and audit quality has insignificant impact on share prices of the companies. The suggested that board size have negative and insignificant association with share price which indicate that the smaller firm have poor coordination and miscommunication Eisenberg et, al (1998). Malik and shah (2013) studied the relationship between corporate governance microeconomic variable and value relevance. They found that the quality of corporate governance and earnings per share and book value are positive and significant impact on stock price. Book value per share is also negative and insignificant effect on share price and negative effect on board independence and audit quality. Audit quality has negative and insignificant effect on share price The probability of board independence (0.0459) indicates that it has significant impact on the share prices and its coefficient (-0.405112) shows that the impact is negative Christine Panasian et al. (2003) documented that board independence has strong association with share price. A higher percentage on the board is associated with greater board independence and better monitoring. The results of interaction terms show the impact of corporate governance mechanism on relevancy of accounting information. The probability of interaction term EPS*BS is significant (0.0329) which indicates that board size of the companies has significant impact on their earning per share. The coefficient of EPS*BS is negative (-0.003793) which shows that earning per share of the companies decreases with increase in the size of board. Safdar A. Butt et, al (2009) was also investigated, that Board size is significantly related to Earnings per share. The analysis of changes in board composition and operating performance, indicate the addition of outside directors to corporate board coincided with an improvement in operating performance Jay Dahaya et al examined (2003). Earnings per share have significant impact on board size and board independence Rozina shaheen (2004). The association between firm value assuming and governance has strong relation to perform if the governance structure of the firms is becoming weak Hamelin (2008). The probability of EPS*BI is (0.0237) which indicate the significant impact of board independence on the companies earning per share. The coefficient of EPS*BI is positive (0.025510) which shows that higher board independency leads to the higher earnings per share of the companies. Vera Ogeh Fiador (2013) investigates the association between corporate governance and value relevance of financial information; he found that outside director having strong relation with earnings per share. The association between EPS and BI is positive and significant as the CEO is also chairman of the board. Kyereboah-Coleman (2007) found that Board independence had positive and significant effect on Earnings per share. Attiya Y Javed et al. (2007) investigated that the quality of accounting information is strongly associated with corporate governance, can explain accounting relevancy , and she also suggested that the high quality information enhance firm financial performance The probability of EPS*AQ is insignificant which indicates that audit quality has no impact on the earnings per share of the companies. Audit committee has insignificant association with Earnings per share and book value per share Rozina Shaheen et al documented that there significant variations in case of numbers of committees but this significant variation were found in the existence of each committee. They shows that there positive relationship between the number of directors and number of committees and the number of directors also have significant relationship with size of firm Rachel Hayes et al (2004). The probability values of interaction terms (BVPS*BS, BVPS*BI, BVPS*AQ) are insignificant which indicates that board size; board independency and audit quality has no significant impact on the book value per share of the companies. The interaction term of book value per share and BS is negative and insignificant the reason is when firms is becoming larger the EPS is lose value relevant. There is no negative and insignificant association between board size and book value per share Renee B. Adam et, al (2004). The result indicate that the board independence have no association with book value per share, Further there is an evidence to indicate that independent director do not improve corporate performance. (Kim-Ming Wan, 2003

CHAPTER 5
CONCLUSION AND RECOMMENDATION

5.1. Conclusion

This study examines the impact of corporate governance on value relevance of accounting information. In this study we check Earnings per and Book value per share effect on stock price. The study also used the corporate governance measure and value relevance of accounting information which indicates that the corporate governance has positive association with accounting information. When any change comes in corporation or boards the value relevance of accounting information will be shrinking. This study focus on corporate governance and value relevance of accounting information that is there is any increase comes in corporate governance measure then the accounting information should be fair in the Pakistani market listed at Pakistan Stock Exchange for the periods 11 years of non-financial firm. The analysis of changes in board composition and operating performance, indicate the addition of outside directors to corporate board coincided with an improvement in operating performance. In corporate governance higher board independency leads to the higher earnings per share of the non-financial firm. Earnings are most important factor of Pakistani markets to valuation of share of investor. Equity valuation has two important roles in the market one is to provide information about future earnings and the other is the present of fewer earnings or in case of liquidation the book value of equity is value relevant Collins et al. (1999). Higher market valuation increases when Earnings is increases. The association between Earnings per share assuming and governance has strong relation to perform if the governance structure of the firms is becoming strong. The firm corporate governance consists of audit quality, board size and board independence is mechanism to offer good quality information constrains management activities managerial-earnings. The regression results also show a significant association with accounting information. The explanatory power of base equation also show increases when compare with the valuation model (basic regression model).

5.2. Policy implications and Recommendations

Policy maker should therefore hunt to ensure that the big sources of information to the investing public, and also those that seem to control the security valuation process, should replicate the true essential values and not be ‘‘cooked’’ for the purpose of unreliable or ambiguous the market, as this would result in the allocation of limited resource on the financial market to incompetent businesses. Different corporate governance measures like managerial compensation along with different corporate control mechanism and the effect of financial accounting information, and how the corporate governance structures show a discrepancy restrict to financial accounting information. Another direction for future research is the impact of financial accounting information on economic performance, that how the accounting information affects the economic performance when the financial accounting data is available.

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Forwarded for necessary action

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All errors in this thesis are my sole responsibility.

Dedication

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