Two sides of the coin (Agents or stewards)

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ABSTRACT

The purpose of this paper is to empirically explore that in practice CEOs are agents or stewards in context of Pakistan. To test the hypothesized model, board size, board independence, CEO duality and tenure, are taken as explanatory variables to study the stated hypothesis under agency and stewardship perspective. Fixed effect panel analysis is employed to test the stated hypothesis. The hypotheses related to board and CEO attributes are formed. Findings suggest that stewardship perspective is on weaker side as compared to agency perspective in Pakistan's corporate sector. Results of this study lack generalizability due to its unique setting and lower disclosure sources. This study contributes to the scarce literature available for developing countries as compared to the developed economies as data availability for the variables specifically CEO related characteristics is a major problem. In this context, this study data is the first to explore the insights under two competitive theories.

KEY WORDS: CEO, Firm Performance, Stewardship Theory, Developing Country

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Dos caras de la moneda (Agentes o administradores)

RESUMEN

El propósito de este documento es explorar empíricamente que, en la práctica, los CEO son agentes o administradores en el contexto de Pakistán. Para probar el modelo hipotético, el tamaño de la junta, la independencia de la junta, la dualidad y la permanencia del CEO, se toman como variables explicativas para estudiar la hipótesis establecida bajo la perspectiva de la agencia y la administración. El análisis de panel de efectos fijos se emplea para probar la hipótesis declarada. Se forman las hipótesis relacionadas con los atributos del consejo y del CEO. Los hallazgos sugieren que la perspectiva de la administración está en el lado más débil en comparación con la perspectiva de la agencia en el sector corporativo de Pakistán. Los resultados de este estudio carecen de generalización debido a su entorno único y menores fuentes de divulgación. Este estudio contribuye a la escasa bibliografía disponible para los países en desarrollo en comparación con las economías desarrolladas, ya que la disponibilidad de datos para las variables, específicamente las características relacionadas con el CEO, es un problema importante. En este contexto, los datos de este estudio son los primeros en explorar los conocimientos en dos teorías competitivas.

PALABRAS CLAVE: CEO, desempeño de la empresa, teoría de la administración, país en desarrollo

Introduction

Good corporate governance is an important ingredient for economic development of a country because it plays vital role in enhancing the financial performance of firms and increasing their access to outside resources. In the context of emerging markets, good corporate governance helps to achieve number of policy objectives such as minimizing the likelihood of financial crisis, strengthening property rights, minimizing operational and capital costs and leads to efficient market development. The boost in managerial and financial scams has forced investors to look for professional management in managing company's business. La Porta, Lopez-de-Silanes, Shleifer, and Vishny (2000) Defined

corporate governance as "a set of mechanisms through which outside investors protect themselves against expropriation by the insiders." They define "insiders" as both managers and controlling shareholders. To avoid corporate crisis, many guidelines and codes of corporate governance framework are developed (e.g. OECD Code, The Sarbanes-Oxley (SOX) Act, UK Corporate Governance Code).

Directors of the board and executives are accountable for the performance of the organization. Though this ultimate goal is valid to all employees of the firm. According to, Serfling(2014) executives ultimately accountable for to achieve the ultimate goals of the firms to board of directors and Chairman of the firm. CEOs hold the vital obligation, they are usually given broad control within firms and accused with the prime policy, management style, behavior type, private network, and tactic of their firm. Furthermore, the executives are on average get very high compensation as compared to an average employees of the firm. As, one would accept that the selection of executives for firm is not less than any challenging task. From signaling perspective, investors have their fears on the appointment of executive officers .Considering the importance of chief executives, it is vital to discover which attributes of chief executives impact the firm to enrich the firm value. The existing literature on executive's impact on firm's financial performance has designated that they have the competency to enhance the firm performance. Various characteristics of CEO like gender, qualification and network affect the firm-performance (Bertrand & Schoar,2003).

Historically, focus of the researchers was to study the role of corporate governance and its impact on firm performance mainly for developed countries like Rajagopalan and Zhang (2008), Shleifer and Vishny (1997) . Hence, researchers have paid less attention to explore connection among various corporate governance practices and firm's performance in case of emerging economies especially South Asian countries. Abundant literature existed on corporate governance and firm's financial performance, however bulk of them are associated to developed countries (Akbar, Poletti-Hughes, El-Faitouri, & Shah, 2016; Bathula, 2008; Klein, 2002) comparatively less focus is paid to the impact of executives

attributes- firm performance link for developing countries under agency and stewardship viewpoint. So, considering the fact that emerging economies hold varied governance, institutional and political conditions, Pakistan is selected as representative of developing economies for current study to fill the gap related to the topic and to study the practical aspect of agency-stewardship theory in emerging country.

The purpose of current study laid on the prevailing literature of board and CEO attributes and firm's performance based on emerging countries. Though, the non-availability of any data stream in developing countries fences the research in corporate-finance. Therefore, it would be interesting to explore the link of CEO-attributes and firm performance whether this link results in the similar way as it works for emerging economies. In the perspective of Pakistan, no inclusive study is detected related to the impact of CEO attributes on firm performance.

Board characteristics are an important aspect of corporate governance and abundant literature is available on the link between board parameters and firm's financial performance. Afrifa and Tauringana (2015) Stated that board attributes and financial performance are significantly associated. According to Ebrahim, Battilana, and Mair (2014), impact of board size, board meetings and audit committee independence on market value measured by Tobinq is positive and significant. No optimum size of board is established for firms yet Nahar Abdullah (2004)reported negative association between board size and financial performance.

The aim of this study is to test the impact of board and CEO characteristics on firm performance in emerging market context to establish in Pakistan's corporate sector CEOs are working as agents or stewards? . There is plenty of literature available regarding the corporate governance practices and firm performance for developed markets. However, the evidences in this regard for developing and emerging markets especially in south Asian context are very limited. Emerging economy is a recent phenomenon that passes through a transition phase in terms of developing corporate governance codes and its practices. Further, corporate governance framework in these countries are mostly influenced by

Anglo American governance model. The regulatory authorities and institutions have issued a number of corporate governance guidelines to strengthen their monitoring and to protect shareholders rights. Therefore, it would be interesting to explore how corporate governance practices affect the performance of firms in emerging markets of south Asian region. Further, how emerging economies implement the code of good corporate governance and whether the same results are obtained as in the case of developed economies? Pakistan is a prominent and rapidly growing emerging economy of the south Asian region.

The code of corporate governance in Pakistan has been refining for the last 10 years with the consultation of practitioners and researchers. As it first established in March 2002 by Security and Exchange Commission of Pakistan (SECP) in order to strengthen regulatory framework and its enforcement is considered as a major step in the corporate governance in Pakistan. The issued codes were consistent with the practices of developed countries. Major emphasis was given to the reforms related to the board of directors in order to ensure accountability and transparency. Therefore, it is imperative to explore how the refinement in code of corporate governance improve the performance of corporate sector in Pakistan. There are limited studies available investigating the link between corporate governance practices and financial performance in Pakistan's perspective having their own unique limitations. Ahmed Sheikh and Wang (2013) conducted a study based on only Islamic commercial banks which is a very small part of banking sector of Pakistan. Akbar, Poletti-Hughes, El-Faitouri, and Shah (2016) studied only 12 firms of the Textile sector of Pakistan and Javed, Younas, and Imran (2014) restricted on only 58 listed firms of Pakistan Stock Exchange as a sample.

This study focuses to fill the gap in related literature in context of Pakistan by two ways; first, by taking recent data from 2009-2018 of the selected companies from six leading sectors of Pakistan's economy, second; it pays attention to cover much ignored aspect of stewardship in Pakistan specific studies. Panel Data analysis by fixed effect model is employed to explore the impact of board attributes on firm's financial

performance. The findings show that agency perspective is much stronger than stewardship.

The remaining of the paper is as follows. In section 2, theoretical background and hypothesis presented. Section 3 explains the sample and data along with measurement of variables, and section 4 presents method of analysis and results and finally section 5 presents Discussion, conclusion and limitations of this study.

1. Theoretical Perspective and Hypothesis Development

The two main concepts of corporate governance are addressed and explored in this paper, i.e. which are the agency and stewardship theory.

1.1. Agency Theory

This theory proposed by Berle (1932), Jensen and Meckling (1976)which in line with Smith (1937) .As per agency theory, the management and ownership must be separate, the central idea of agency theory is that the managers are self-cantered and pay less attention to the interests of shareholders. For example, the managers might be more intended towards lavish offices, luxurious cars along with other doles which incur the cost tolerated by the owners. The managers who hold supreme knowledge and capability about the firm are in a position to follow self-interests rather than shareholders (owners) interests (Fama, 1980; Fama & Jensen, 1983).The managers preference of self-interests over shareholders inflate the costs to the firm, and in result firm observe decline in profitability and competitiveness in the market. In case, managers optimize their self-interest at the cost of firm's profitability then the trust gap between managers and owners widen and therefore, there is severe necessity to strictly screen the management by the board to confirm the shareholders interest. According to Donaldson and Davis (1991) board of directors is considered as the core monitoring yard stick to safeguard shareholders interest. The main function of the board is to monitor and control the topmost management team and the Chief executive to avoid any wrongdoings (Peng, Zhang, & Li, 2007).

1.2. Stewardship Theory

This theory is based on opposite perception of agency theory, which assumes that principals and agents possess different interests and that agents are self-cantered and take care of their self at the cost of shareholders. This notion proposes that managers will act as accountable stewards to control the firm's resources, in case principal left on their own. It proposes that the managers are dependable and worthy agents of the assets allotted to them, which marks monitoring surplus (Davis, Schoorman, & Donaldson, 1997; Donaldson & Davis, 1991). This theory suggested that impartiality should be given to managers and that freedom based on trust, which diminishes the agency cost.

1.3. Board Size and Firm Performance

According to Agency perspective, board of directors are responsible for the protection of shareholders wealth as well as liable for the growth of the organization. When the notion of corporate boards establishes, it can instinctively expect that a superior board is desirable. It permits the insertion of more diverse board members bringing diverse areas of skill; however, large board size roots numerous problems of management and communication, decline board usefulness in monitoring agents (Eisenberg, Sundgren, & Wells, 1998; Jensen, 1993; Lipton & Lorsch, 1992).Moreover, larger boards have been observed to characterize by less ability of directors to condemn top managers and to analyse and argue utterly firm performance (Lipton & Lorsch, 1992).

Considering the importance of board of directors, the debate related to board size is still alive in corporate world. According to Jensen (1993) that big boards are more expected to bear larger costs of monitoring the firms and they are little probable to perform active role where size of the board increased from seven to eight members. The agency theory advocates that as size of the board increases, the agency conflict connected to the director is free riding rises and —the boards become more figurative and little role of the management practice (Hermalin & Weisbach, 1988). Larger boards are more expected to be measured by the CEO instead of the board. It will provide the managers to

follow their self-interests rather than to align the shareholders and managers interests, which lead towards the rise of agency problems and thus worse firm performance (Hermalin & Weisbach, 1988). In large board size to reach an agreement is not an easy task due to a variety of suggestions (Kholeif, 2008).Thus, decision processes in larger boards are slower and less proficient. In sum, all of these may enhance the agency problem, as with least communications and management, this will lead to minimizing the board's member's capability to regulate and monitor management which may affects performance poorly.

Similarly, Ahmed, Hossain, and Adams (2006) discuss that formation and adoption of new ideas and acceptance of diverse suggestions are least probable to take position in larger boards, which will results in hurdle to improve the boards function to offer the manager with upright notions and assistances. Therefore, the problem in the board suggests that board's members are less expected to work for shareholders-interests, so agency problem arises. According to Cascio (2004), to-date debate still not over about the optimum size of the board. Precisely, there is no rule of thumb in the corporate world to decide the size of board necessary or sufficient for the firm: some studies in favour of small boards and some studies supported larger boards. Yermack (1996) reported the characteristics of large boards as less rational in decision making and worse communication which might decrease the board members capacity to monitor the management competently. This cause larger agency problems and costs lead towards worsening firm's performance.

Numerous studies reported positive characteristics of large board as, broader demographic diversity of board members, variety in communications, experience, abilities, and attachments outside the company, which leads to firm's superior performance (Arosa, Iturralde, & Maseda, 2010; Dalton, Daily, Ellstrand, & Johnson, 1998; Gales & Kesner, 1994; Haniffa & Hudaib, 2006; John & Senbet, 1998; Lehn, Patro, & Zhao, 2009; Yawson, 2006).The larger board also perform a vital role in improvement and enrich the results of the decisions due to diverse thoughts and aids, which helps to offer the management with

innovative thoughts and ideas which may results in a reduction in the agency cost and lead to superior performance (Lehn et al., 2009).Therefore considering the agency perspective and diverse literature ,we hypothesised as:

H1: Board size has positive impact on firm performance (Agency Perspective)

H1A: Board Size has negative impact on firm performance (Stewardship Perspective)

1.4. Board Independence and Firm Performance

Agency theory advocates the independence of the board in favor of shareholders. Boards are controlled by core managers, whose performance is supposed to be better if they take effective decisions and employ extreme control, however, in modest business environments, such main insiders have low possibility of survival because of the absence of segregation between control and management (Fama & Jensen.1983). It establishes a notion for the need of non-executive directors to confirm board independence from management by clearly separating the control and management functions. Also, internal managerial disparities might be mediated by non-executive directors, as well as refining relations between internal management and other stakeholders. Consequently, non-executive directors are in a superior position to practice the monitoring functions as compared to executive directors. Jensen (1993) describes that presence of independent directors helps in productive disparagement, as they will provide their opinions without adulation or compulsion. Furthermore, independence of directors will assist in controlling information asymmetry between executive directors and the shareholders. It will shrink the agency issues and hence maximize the shareholder's wealth. Pfeffer and Salancik (1978) State that non-executive directors bridge the gap of information and improve the networking with stakeholders and the society and regarding their experience and skills by providing the management assistances on strategic policies and investments decisions and hence protect the firm resources and minimize ambiguity. In contrast, B. Baysinger and Hoskisson (1990); Agrawal and Mandelker (1987)argued from stewardship theory

perspective that non-executive directors are usually part-time workers. Therefore, their capability to monitor and counsel the board weaken. Further, the absence of the information that they have, and the lack of concerning information on daily activities constraints non-executive directors capacity to apply their task to increase firm performance. Thus, the insider directors are superior to commence the monitoring purpose of assessing the top managers (B. Baysinger & Hoskisson, 1990).

Various studies (Arosa, Iturralde, & Maseda, 2013; Gordini, 2012; Khan & Awan, 2012; Kumar & Singh, 2012; Weir, Laing, & McKnight, 2002) investigate the impact of non-executive directors on firms financial performance. Prior research does not provide any obvious connection between board independence and firm performance. For instance, early work by Vance (1964) reported a positive connection between the proportion of independent directors and some performance measures.Similarly,B. D. Baysinger and Butler (1985),Hermalin and Weisbach (1991) and MacAvoy, Cantor, Dana, and Peck (1983) all reported no significant correlation between board independence and different measures of firm financial performance. Whereas, few studies suggest that the firms with a high proportion of independent directors might perform worse. Yermack (1996) reported a significant negative association between the percentage of independent directors and market measure performance but no significant connection for several other performance indicators like sales to assets ratio. Thus, from agency and stewardship perspective, we hypothesised as:

H2: Board Independence has positive impact on firm performance (Agency Perspective)
H2A: Board Independence has negative impact on firm performance (Stewardship Perspective)

1.5. CEO Duality and firm performance

CEOs possess a vital role in the growth of the firm (Raheja, 2005). CEO duality arises if the Chairman also works as Chief Executive Officer (CEO) of the firm. Generally CEO

retain the executive responsibilities to initiate the firm's business; whereas, the Chairman has the responsibilities to regulate the board's matters. In precise, duality proposes the clear direction of a unique leadership which might proposed a quick reaction to the externalities of the firm. Furthermore, duality enriches the discretionary clouts of CEO to observe and control the actions in the best interest of the firm (Boyd, 1995).The agency notion proposes that conflict between executives and shareholders can be minimized by classifying the decisions of management and decisions related to control the firm separately. Thus, the principal responsibility of CEO to pledge and device the tactical decisions while boards are accountable to validate and monitor the decisions taken by Chief executives. Though, the dual status of CEO might weaken the control of the board and negatively affect the firm's performance. In contrast, from resource dependence and stewardship perspective, CEO duality helps to take strategic decisions by the CEO and in result increase firm's financial performance. According to the study of Pfeffer & Salancik, (1978) duality enhances the power base for strategic decision making and active execution likely to vanish firm's indolence. While , Brickley, Coles, & Jarrell (1997)was inconclusive in this regard.

In corporate finance literature, limited research have emphasized the link between the CEO's duality and capital structure of the firm, though earlier studies reported mixed results. According to the findings of Fosberg(2004) based on the perspective of advanced countries , the CEO's duality is helps to increase the debt for the organization, whereas these findings are not statistically significant. Similarly, in another research, Kyereboah-coleman & Biekpe (2006) reported a negative and statistically significant association between CEO's duality and leverage, claimed that in case of CEO's duality, the agency cost rise and in reaction lenders averse to invest in such firms. Contrary, some observed positive association between leverage and CEO duality. Abor (2007) Observed positive and statistically significant relationship between CEO duality and leverage. While ,Bokpin and Arko (2009) stated positive but statistically insignificant association between leverage and CEO duality, argued that in case of CEO's duality firms desire to utilize debt over increasing equity.

The dual status of CEO might fade the overall management and effect the firm performance. From a theoretical viewpoint, agency problem can be weakened by the disjoint role of CEO and Chairman. As per an earlier study, Fama & Jensen (1983) , CEO duality offers broader power to govern and control the board functions along with managerial activities (Boyd, 1995). Consequently, generally, related to CEO's duality- firm performance link, various outlooks are observed in the literature. Through considering specific leadership characteristics , CEO duality can help to dazed the managerial problems and better able to device strategic decisions (Pfeffer & Salancik, 1978) . Considering the theoretical and empirical literature, we hypothesized as:

H3: CEO duality has negative impact on firm performance (Agency Perspective)

H3A: CEO duality has positive impact on firm performance (Stewardship Perspective)

1.6. CEO Tenure and firm performance

Tenure, Period of the agreement to serve the firm is another very significant factor among various characteristics to inspect the impact of CEO on firm's performance. Considering the element, that personality of CEO's and style of leadership's vary among CEO's, therefore, to effectively manage the firm, CEO required longer period of time (Grimm & Smith, 1991), which suggests that strategies will be more steady and primes towards effective decision making, efficient governance and eventually improved performance (Hambrick & Fukutomi, 1991).So as to attain the firms goals, CEO's claim large tenure , which help them to device their own pattern of governing the firm. As per , Hambrick and Fukutomi (1991)larger tenure of CEO's have their own virtues as motivation towards firm and grid within the capital market are linked with large tenure.

In contrast, Miller (1991) have varied view point that CEO's motivation declined as the tenure increase as well as attraction within the firm which leads to apathy among different sectors of the firms. As per, Adams, Almeida, and Ferreira (2005) suggested that the impact of CEO's power on stock returns by utilizing the proxy of power and reported an

insignificant relationship between CEO's tenure and stock returns. Likewise, Barker III and Mueller (2002) reported a negative association between CEO's tenure and innovation, Research and development expense as proxy of innovation investment, however the association was insignificant.

The CEO's tenure might affect the decision making and effect shareholders' wealth. For example, when CEO's approaches to their retirement then their performance might be judged on the basis of current measure of performance as these gauges are historical selections for the investors, while CEOs in the starting of their career of their contract might be best examined on the basis of market-based performance indicators which based on the future perspective of the firm and their effect on shareholders wealth. CEO's tenure is likely to have a positive impact on the capital structure. Removal from job is vital concern of CEO's. It's not only leads to the loss of a current job but also, lessen future career options(Brickley, Linck, & Coles, 1999). According to, Iossa and Rey (2014) argument that CEO's having more career concerns might overinvest in vague projects, moreover observed that longer the CEO's tenure, the large the firm's investment. Therefore, CEO's tenure have an impact on financing and investment decisions which ultimately affect firm's financial performance. CEO's tenure is likely to have a positive impact on firm's financial performance. In the today's corporate world, retaining of CEO for a longer period is a matter of concern for the firms, because frequent turnovers of CEO's influence governance and performance adversely (Morck, Shleifer, & Vishny, 1988).Stewardship theory advocate in favor of larger tenure to get the advantage of the true capabilities of the CEO,wheras agency theory is contrary that large tenure make CEO's less challenging and prefer own interests. So, considering the arguments and empirical literature, for this study, we hypothesis as:

H4: CEO tenure has a negative impact on firm performance (Agency Perspective)

H4A: CEO tenure has positive impact on firm performance (Stewardship Perspective

2. Data and Methodology

2.1. Sample and Data

Non-probability sampling is employed to select the listed firms for this study. Firstly six leading sectors of the economy are selected on the basis of their contribution towards GDP and their market capitalization, then at second stage the firms are selected from those sectors on the basis of their availibility of balance sheets / annual reports for the selected time perid 2009-2018. Total 179 firms are selected which become 32% of the total listed firm in Pakistan Stock Exchange.The number and percentage of selected firms from various sectors is presented in table-1

Table 1 Sample Distribution

Sector	No. of Companies (Sectoral percentage)
Banking	25 (61.92%)
Insurance	6 (17.89%)
Cement	20 (82.67%)
Fuel & Energy	20 (64.85%)
Sugar	23 (65.69%)
Textile	85 (53.74%)
Total	179 (31.82%)

2.2. Measurement of variables

Most widely used indicators of accounting and market measures of financial performance are employed in this study, proposed by (Arouri, Hossain, & Badrul Muttakin, 2014,Kallamu & Saat, 2015).Board and CEO's characteristics are employed as explanatory variables for this study and firm specific characteristics are employed as control variables for this study (Boschen & Smith, 1995; Frank & Goyal, 2007; Sapienza,

Zingales, & Maestripieri, 2009; Zwiebel, 1996). The operationalization of the dependent, explanatory and control variables are explained in table 2.

Table 2 Variables Identification / Description

No.	Variables Related to...	Variable Name	Abbreviation	Type	Description
1	Board Characteristics	Board Size	BS	Scale	Total number of directors on the board
2		Board Independence	BI	Scale	The ratio of independent directors to total directors
3	CEO Characteristics	CEO Duality	CEOD	Binary	CEO Duality: "1" in case CEO is also Chairman ,Otherwise "0"
4		CEO Tenure	CEOT	Scale	Duration of contract to serve the firm
5	CEO related Control Variables	CEO Age	CEOA	Scale	CEO Age in years
6		CEO gender	CEOG	Binary	"1" IF CEO of the firm is male otherwise "0"
7		CEO Education	CEOEDU	Binary	"1" IF CEO have financial education , otherwise "0"
8	Firm Specific Control Variables	Total Shares	TS	Scale	Total number of shares
9		Total Assets	TA	Scale	Total Assets
10	Performance	Return on Assets	ROA	Scale	Ratio of total profit(loss) to total assets
11		Return on Equity	ROE	Scale	Ratio of total profit (loss) to total equity
12		Tobinq	Tobinq	Scale	Ratio of market value to total assets

2.3. Model

In this section, we present the theoretical and econometric model. To examine the effect of board –CEO's attributes on firm's financial performance according to proposed theoretical model (Figure 1), Panel data regression analysis is performed to test the following econometric models:

$$\text{Firm Performance}_{ij}=\alpha+\beta_1 BS_{ij}+\beta_2 BI_{ij}+\sum\beta_c \text{Firm specific control}+\sum_j^m \beta_j \text{yeardummies}_j+\varepsilon_{ij} \text{-----(1)}$$

$$\text{Firm Performance}_{ij}=\alpha+\beta_1 CEOD_{ij}+\beta_2 CEOT_{ij}+$$

$$\sum\beta CEOrelatedControl+\sum\beta \text{Firm Specific control}\sum_j^m \beta_j \text{yeardummies}_j+\varepsilon_{ij} \text{-----(2)}$$

Model 1 and 2 are the econometric models in which market and accounting measures are employed as outcome variable and CEO attributes are taken as explanatory variables along with firm's specific characteristics as controls variables and $\beta's$ epresent the coefficient of explanatory variables.

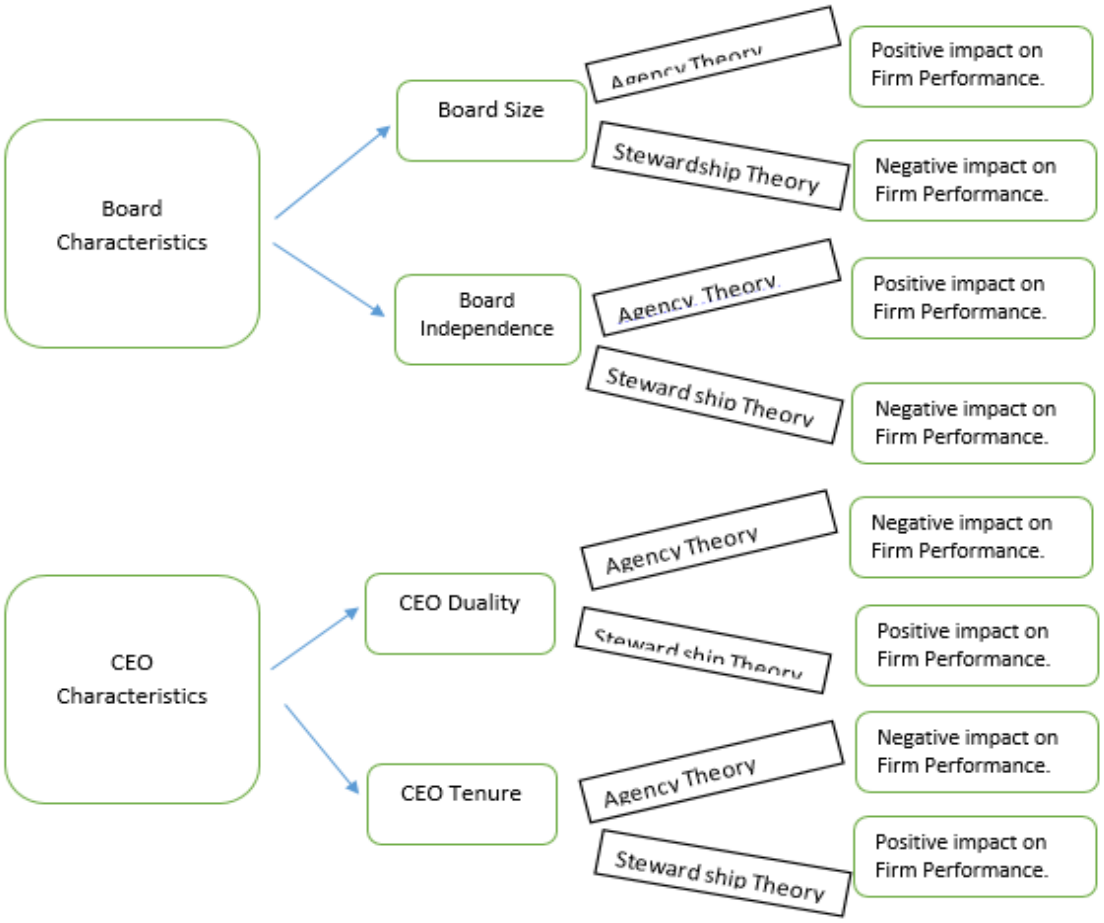

Figure-1: Purposed Theoretical Model

3. Empirical results and Discussion

3.1. Descriptive Statistics

Table-3 present the descriptive statistics of categorical variables. The sample contains 17% of the firms where CEO's are also Chairman of the firms, while in 83% of the firms, duality does not exist. In comparison to other countries, in Hong Kong 41% of the firms CEO duality exists (Yan Lam & Kam Lee, 2008) and in comparison to U.S.A, CEO's duality in Pakistan is observed to be on lower side, though the trend of CEO's duality in U.S.A is on downward, in last two decades its declined from more than 75% in 1990s to just 50% in 2016 because of the increasing consciousness of the separation of Chairman and (Duru, Iyengar, & Zampelli, 2016).In selected firms, 16 % CEO's have specific management educational degree, like Master of Business Administration (M.B.A) / Master of Public Administration (M.P.A). In sample , 23% of the CEO's are female ,which is very low as likely in male-dominated corporate sector where chances for women's are very low due to the traditional prospect of Pakistan, this percentage seems to be very low in comparison to advanced countries,e.g in U.K where 41% of the firm's CEO's are women (Pasaribu, 2017).

Table 3 :-Descriptive Statistics for Dichotomous Variables

Categorical Variables	Unit	Yes	No
CEO-Duality	%	17	83
CEO-Financial Education	%	16	84
CEO Gender(Male-1,Female-0)	%	77	23

Table- 4 present the descriptive profile of continuous variables of this study, Descriptive statistics are presented in form of minimum, maximum, average and variation. Average board size is observed to be 8 with range of 4 to 15 members which is comparable with a study based on Singapore and Malaysian firms reported by Bradbury, Mak, and Tan

(2006). It is found that 0.2% of the sample having board size 4 and only 0.1% of the boards have 15 members in the board. Board independence described by the proportion of independent directors in board is 28% in average with variation 18%, 10.4% of the sample firms having no board independence while 79% of the firms having 33% board independence as per codes of SECP.

Table 4:-Descriptive Statistics of Quantitative Variables

CEO-Characteristics	Unit	Min	Max	Mean	S.D
Board Size	Num	4.00	15.00	7.87	1.40
Board Independence	%	0.00	0.33	0.28	0.18
CEOTenure(Years)	No.	1	5	1.39	0.73
CEO Age(Years)	No.	32	69	46.2	6.99
Total Shares	bil No.	0.5	27.62	0.49	2.2
Total Assets	bil Rs.	0.01	496.2	18.1	42.7
ROA	Ratio	-4.11	5.57	0.02	0.32
ROE	Ratio	-319.4	93.61	-0.12	9.94
Tobinq	Ratio	0	525.6	5	32.3

The CEOs job tenure is found to be 1 to 5 years with an average of 1.4 years which showed that firms are hesitant to appoint CEO for longer period of time, while in comparison, Vintila & Gherghina (2012) for firms of U.S.A average tenure is 10 years. The range of age of CEO's in the sample is observed to be 32-69 years with average age is found to be 46 years and most of the CEO's belong to age of 40+ years, in contrast to developing country (U.S.A) the age bracket of CEOs is 34 to 75 years with an average age 55 years (Vintila & Gherghina, 2012).Averages return on assets is 0.02 with standard deviation of 0.32. Tobinq which is considered as the indicator of market performance is 5 in average with s.d 32.25. The average total assets across the selected time period and sectors is 18.07 bil rupees and the average number of shares is 0.52 bil.

Table-5 represent the findings of the tests of the assumptions of sampling, randomness and normality of the scaled variables of board-CEO and firm's performance indicators, Z-stat, and their p-values endorse that size of the board, independence of the board, CEO's tenure, CEO's age, accounting indicators ROA, ROE, and market measure Tobinq does not fulfil the assumptions of randomness and normal distribution. So, in comparison the board and CEO's scaled characteristics and firm's performance indicators with respect to binary variables of CEOs, e.g. CEO's duality, gender and financial educational background, Mann-Whitney U test is performed to explore is the difference between two groups is statistically significant or not.

Table 5 Test of Randomness and Normality

	Runs Test		Kolmogrov-Smirnovtest	
Variables	Z-Stat	Sig.	Z-Stat	Sig.
Board Size	-13.63	0.00	23.07	0.00
Board Independence	-23.79	0.00	13.38	0.00
CEO Tenure	-11.21	0.00	15.34	0.00
CEO Age	-18.42	0.00	7.56	0.00
ROA	-17.43	0.00	11.12	0.00
ROE	-11.33	0.00	13.55	0.00
Tobinq	-23.98	0.00	16.24	0.00

Table-6 presents the Mann-Whitney U test .Board size varies with respect to CEO duality and educational background, while board independence varies with respect to CEO gender and educational background. CEO tenure and age are significantly different between the firm where CEOs duality exist and duality not exist, performance indicators also varies with respect to CEO demographic variables.

Table 6 Mann-Whitney U test

	Duality	Gender	Financial Education
Variables	Z-Stat (Sig.)	Z-Stat (Sig.)	Z-Stat (Sig.)
Board Size	-3.12(0.00)	-1.57(0.14)	-3.94(0.00)
Board Independence	-1.91(0.10)	-2.94(0.01)	-3.98(0.00)
CEO Tenure	-2.14(0.00)	-0.38(0.77)	-1.05(0.04)
CEO Age	-3.80(0.00)	-2.37(0.03)	-5.80(0.00)
ROA	-2.58(0.01)	-1.37(0.36)	-0.42(0.60)
ROE	-1.86(0.05)	-0.81(0.04)	2.66(0.01)
Tobinq	-4.14(0.00)	-2.15(0.12)	0.01(0.99)

3.2. Panel Data Regression Analysis

As our data is related to 2009-2018 of 179 firms belonging to six different sectors which constitute panel data. Panel data pool the time-series and sectional and time series observations. Gujarati (2014), states the merit of panel data, that provide "more information, more variability, less collinearity among variables, more degrees of freedom and more efficiency". Panel Data regression analysis have three different models namely, pooled regression model, fixed effect model or Least square dummy variable (LSDV) model and Random effect model based on the type of sampling employed, type of data and restrictions imposed on the model. Dougherty (2007) Suggested that, fixed effect model is suitable if non-probability sampling scheme is employed. Hence, under fixed effect model, we assume that in both of above stated models, explanatory variables and residuals are correlated and intercept varies among sectors.

To examine the impact of board attributes on financial performance and to estimate the econometric model 1 and to test the hypothesis from H1, H1A, H2 and H2A, panel data regression analysis under fixed effect assumptions are estimated. Board size, and board

independence are taken as explanatory variables, total assets and number of shares are employed as control variables. Three different performance indicators are taken as dependent variables, among them, ROA and ROE are considered as accounting measures, and Tobinq is taken as an indicator of market performance.

Table-7 presents findings of fixed effect regression analysis. ROA, ROE and Tobinq are taken as dependent variables in 1-1, 1-2 and 1-3 respectively to regress with board characteristics along with control variables under fixed effects assumptions. Dependent variables are winsorized at the 1st and 99th percentile to avoid the problem of outliers. Zero is allotted to all missing values of the employed (Fee, Hadlock, & Pierce, 2008; Hale & Santos, 2009). Size of assets and total number of shares of are employed as proxies of size and treated as control variables. To deal with the concern of heteroskedasticity, clustered standard errors are used (White, 1980). Model specification is established by F-stat and p-values as well as REMESE test, all models are observed to be statistically significant.

Table 7- Regression Analysis-Board Characteristics VS Financial Performance

Model	1-1	1-2	1-3
	ROA	ROE	Tobinq
Variables	b(Sig.)	b(Sig.)	b(Sig.)
C	1.34(0.00)	0.18(0.00)	0.79(0.07)
Board Size(BS)	0.15(0.09)*	0.01(0.03)**	0.06(0.09)*
Board Independence	-2.71(0.00)***	-0.15(0.00)***	-3.45(0.02)**
ln TS	0.05(0.09)*	0.04(0.00)***	0.07(0.58)
LnTA	0.29(0.02)**	0.42(0.09)*	0.22(0.04)**
Lag of dependent	0.29(0.02)	0.28(0.00)	0.36(0.00)
BS-Square	-0.03(0.00)***	-0.03(0.03)**	-0.08(0.00)***
BI-Square	36.17(0.00)***	27.33(0.00)***	19.13(0.00)***

Year Dummies	YES	YES	YES
Explanatory Power(Adjusted-R-Square)	0.39	0.36	0.41
Model Significance F-Stat (Sig.)	206.69(0.00)	25.44(0.00)	8.79(0.00)
Wald test: Chi-square(Sig.)	1.31 (0.34)	1.75(0.10)	1.53(0.09)
D.W test	1.89	1.69	1.49
REMESE: t-Stat	85.41(0.00)	45.92(0.00)	1.81(0.23)
REMESE: F-Stat	781.71(0.00)	959.55(0.00)	1.45(0.23)
REMESE: Likelihood Ratio	230.33(0.00)	147.29(0.00)	1.43(0.23)

Table -7 presents the results of Panel Data regression analysis, regression coefficient along with their p-values are presented in parenthesis against each board attribute-test of each model of 1-1 to 1-3 suggest that all models are significant at p-values for each of them is less than any standard level of significance. The explanatory power of the models from 1-1 to 1-3 is observed to be in range 36% to 41% which is considered to be a good explanatory power. Among different board characteristics, the regression coefficient of board size is positive, and their p-values suggest their significance. Whereas the co-efficient of board independence is negative and statistically significant.

Table 8 Regression Analysis: CEO Characteristics vs. Firm Performance

Model	2-1	2-2	2-3
Dependent Variable	ROA	ROE	Tobinq
Variables	b(Sig.)	b(Sig.)	b(Sig.)
C	-0.99(0.00)	-0.53(0.61)	-2.19(0.00)
Duality	-0.91(0.00)***	-0.96(0.01)**	-0.99(0.00)***
Tenure	-0.01(0.02)**	-0.04(0.06)*	-0.72(0.03)**
Education	0.03(0.00)***	0.04(0.09)*	0.73(0.00)***

Age	0.92(0.00)***	0.10(0.00)***	0.40(0.03)**
Gender	0.26(0.08)*	0.35(0.06)*	0.29(0.01)**
LnTS	1.39(0.00)***	0.01(0.00)***	0.01(0.55)
LnTA	0.88(0.02)**	0.98(0.41)	0.06(0.00)***
Tenure-Square	-0.07(0.00)	-0.03(0.00)	-0.09(0.09)*
Lag of dependent	-0.75(0.01)***	-0.92(0.00)***	0.03(0.00)***
Year Dummies	YES	YES	YES
Adjusted R-Square	0.45	0.53	0.31
Model-Significance	77.34(0.00)	183.67(0.00)	199.31(0.00)
Wald test	111.62(0.00)	85.75(0.00)	19.53(0.00)
Autocorrelation	2.14	1.27	1.86
REMESE			
t-statistic	25.52(0.00)	1.49(0.11)	39.20(0.00)
F-statistic	641.00(0.00)	1.61(0.10)	921.19(0.00)
Likelihood-Ratio	555.83(0.00)	2.44(0.19)	624.52(0.00)

***,**,* Significant at 1%,5% and 10% level of significance

The lag of dependent variable in each model employed to overcome the problem of serial correlation, and in the result, the D.W statistic is observed to be within range 1.5 to 2.5 which is an acceptable range in favor of no autocorrelation as suggested by Gujarati (2014) .The REMSE test is applied to establish the linearity of the models. It is observed that the quadratic effect of board size and board independence, are statistically significant. Figure 3-2 and 3-3 confirm the non-linear trend of board size and board independence with ROA and ROE. Optimal board size is observed to be 12 and then decline the performance measures as board size increase from 12 which reflect the inefficiencies of large board size. Board independence has negative impact on performance but performance turnaround as

board independence increase from 15%, low independence might be neutralize the power of independent directors.

Table 8 presents the precise results of the estimated equations of model 2, CEO attributes such as Duality, Tenure are employed as explanatory variables and demographic attributes such as CEO's age, gender and education are taken as control variables to know the influence on ROA, ROE, and Tobinq. To minimize the variations, logarithmic transformation is used for quantitative variables of the study. Models 2-1 to 2-3 are found to be empirically significant by F-stat and their corresponding p-values. The regression coefficients and their corresponding p-values in the parenthesis suggest that among different CEO's attributes, CEO gender, Duality, Annual compensation, and education have a positive significant effect on accounting, and market measures. Gender of CEO's is taken as a binary variable, and the positive coefficient in all models divulges that the firms where CEO's are male perform much better than those having female CEO's. In this perspective, CEO's duality, is found to have negative and significant effect on performance indicators. The explanatory power of the model where market measure (Tobinq) is taken as outcome variable is 45% and for accounting measures (ROA) is 53% and 31% for ROE respectively. Chi-square statistic and Wald test endorse the selection of fixed effect model. The REMESE test is employed applied to check the assumption of linearity and non-linear terms are added in the models where linearity assumption not fulfil. It is observed that CEO tenure is non-linearly related to market and accounting measures.

Discussion, Conclusion & Suggestions

The hypothesis related to board size is in support of agency perspective .Board size, heavily dependent on resources, the average board size in south Asian firms is comparable with the board size of Singapore and Malaysian firms reported by Bradbury et al. (2006) and can be considered as small in comparison of American, British, Canadian, Spanish, French and Belgian firms with average board size of 12 or 13 directors(De Andres, Azofra,

& Lopez, 2005) and Japanese firms with average of 28 directors(Bonn, Yoshikawa, & Phan, 2004).The regression analysis support the hypothesis that in south Asian firm's board size and financial performance are positively associated which in line with various findings reported in literature as Adams et al. (2005) observed a positive impact of board size and financial performance based on U.S firms. Apart from the demerits of large boards in the form of less meaningful discussion, time consuming, and lack of cohesiveness, larger boards possess some positive attributes too. Larger boards are expected to be associated with an increase in board diversity in terms of gender, skills, nationality that positively affect financial performance. A meta-analysis consisting of 131 studies by Dalton et al. (1998) reported that larger boards are positively correlated with financial performance which, is in contrary to the findings of an earlier meta-analysis by Daily, Certo, and Dalton (1999).

Regression analysis explored that board Independence has negative impact on firm performance, which is against the agency perspective. One independent director is mandatory but 33% of the total number of board of directors is preferable by the codes of SECP.As per descriptive statistics, the average of proportion of independent directors is 28% which is lower than preferable bench mark of SECP as well as lesser than Malaysian listed companies reported by Hooy and Tee (2009) 39.5%. The proportion of independent directors vary significantly among sectors and time period of studied data. Correlation between board independence and firm performance is negative and statistically significant and as well as impact of board independence on financial performance is negative and statistically significant. Our findings are consistent with Nahar Abdullah (2004) but contrary with Bhatt and Bhattacharya (2015) that evidenced no relationship between independent directors and financial performance. The negative impact of independent directors and low proportion might be due to the tactics adopted by management in hiring of someone having no relevant experience, irrelevant background and submissive personality which defuse the powers of such directors. Wallison (2006) argued that the role of independent directors is to safeguard the rights of shareholders as well as of stakeholders and to avoid any likelihood of wrongdoing of executives in their self-interest.

The assumption based on CEO's duality- firm performance get empirical support that in Pakistan's corporate sector,CEO's duality does not perform better than those where duality exists, which mention the importance of the segregation of ownership and management as per agency perspective, which is advocated by Fama & Jensen(1983).

The hypothesis related to CEO's tenure- firm's performance is also empirically supported, that CEO's tenure and firm performance are negatively linked which support the agency notion, which indicate that the function of CEO in strategic decision making is very low and CEO's are just figureheads and Chairman's are more powerful than CEOs. The negative influence of CEOs tenure might be due to lack of, low compensation package, motivation, lack of managerial abilities which leads to firm's financial performance negatively, the results related to tenure is contrary to Alutto and Hrebiniak (1975)which reported positive impact of CEOs tenure- firm performance.

Board size is one of the important factors of corporate governance and board of directors is important for protecting the interests of shareholders and stakeholders. This study supports the hypothesis that board size and firm performance are positively associated, which is consistent with the findings of Belkhir (2009) though empirical results on board size and firm performance are inconclusive. Ujunwa (2012), reported negative relation between board size and financial performance. Large board size has its own merits but heavily dependent on the resources of the firm. Firm size and age are the determinants of board size(Coles, Daniel, & Naveen, 2008). This study finds negative relation between board independence and financial performance that raises questions on the role of independent directors in the board. The existence of independent directors on the board may lead to poor firm financial performance. The negative relation between board independence and financial performance might be due to the neutralization of the powers of independent directors by appointing such independent directors having irrelevant background or without awareness to exercise executive powers. With reference to the diverse literature of the relationship between board independence and a firm's performance, Wallison (2006) concludes that role of independent directors is not

associated with financial performance of the firm but is associated with better governance. They play the monitoring role to protect the shareholder's rights and to minimize the chances of executive director's wrongdoings in their own interest.

Specific to Pakistan's corporate sector, in practice, stewardship perspective is very weak. CEO's duality fades their performance which indicate their inadequacy to effective control on management. The link of CEO's tenure and firm performance are negatively linked which suggest that larger tenure make CEO easy going and their preferences shift from organization to personal interest. In conclusion precisely, current study explores that in general CEOs are not as powerful in Pakistan as in developed countries, which also suggest that Chairman and board are not in favor of stewardship outlook and averse to give strategic powers to CEO, which increase the agency cost and decay the firm performance. From agency theory outlook, the codes of governance in various countries do not differ to great extent but the successful employment creates the difference among the countries. Owners of the firms in developing countries are considered as power seekers, which is not a common phenomenon in developed countries, like USA and UK. The limited utilization of stewardship perspective increases the conflict of interest between CEOs and shareholders, which leads to the removal of personal benefits at the cost of minority shareholders.

This study has few limitations, which restrict their generalizability. Firstly, this study based on a single developing country where financial disclosures are likely to be on lower. Secondly, listed firms are selected by non-probability sampling, which restricts the generalization. Third, this study based on only CEOs characteristics available in balance sheets or annual reports of their firms, which minimize the selection of characteristics for the research. More insights for future studies can be explored on the topic in hand by overcoming the limitations of this study.

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Conflict of Interest

The corresponding author, on the behalf of all authors, declares that there is no conflict of interest.

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