Impact of Corporate Governance on Stake Holders

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INTRODUCTION

The corporate governance system defines who possess the firm, and states the rules by which economic returns are distributed among employees, managers, shareholders and other stakeholders. Corporate governance concerns the association among the management, board of directors, controlling shareholders and the other stakeholders. As such, a country’s corporate governance organization has deep implication for firm, organization, trading relationships, employment systems, and capital markets.

In Pakistan; the publication of the revised SECP (Securities and Exchange Commission of Pakistan) for corporate governance code 2014 for publicly listed companies has made it an important research area of corporate sector.

The code of corporate governance introduced by SECP in early 2002 is the major step in corporate governance modification in Pakistan. The code includes many recommendations in line with worldwide best practice. The major areas of enforcement include better disclosure, including improved internal and external audits for listed companies and reforms of board of directors in order to make it accountable to all shareholders.

PROBLEM STATEMENT

Corporate governance effect on firm is a very vital and important issue since the last financial suffering over the Pakistan. The main idea of this study is to examine whether or not the factors are taken into consideration at this study can determine the firms’ performance, board size, and stakeholder and through corporate governance.

LIMITATIONS OF THE STUDY

In this research the companies are chosen those are listed in KSE (Karachi Stock Exchange). This study examines the firm’s performance, board size, and stakeholder relations through the corporate governance

SIGNIFICANCE OF THE STUDY

The importance of this study stems that this study provides evidence of whether or not the corporate governance and performance and profitability of the Pakistan companies listed at Karachi Stock Exchange (KSE) are affected by variables that were proposed. And provide the important of the relationship between corporate governance and firm’s performance that can be used by the Pakistani firms with their stakeholders to solve the problem. Measuring the quality of corporate governance has the aim to establish the height of the present pleasure of the stakeholders as well as to create the sources of data for improving the services.

SCOPE OF THE STUDY

Strong corporate governance maintains investor’s self-confidence, as a result of which, the company can raise capital efficiently and effectively. It provides a proper inducement to the owners as well as managers to achieve objectives that are in the interests of the shareholders and the organization. Corporate governance ensures corporate success and economic growth of the firms. There is a positive impact on the share price and as well as stakeholders’ minds.
RESEARCH QUESTIONS

1. Is there any effect of corporate governance on firm performance?
2. Is there any effect of corporate governance on BOD size?
3. Is there any effect of corporate governance on stakeholders?

RESEARCH HYPOTHESIS

H₀₁: Corporate governance has no affects on Firm Performance.
Hₐ₁: Corporate governance affects on Firm Performance.
H₀₂: The corporate governance has no effects on BOD size.
Hₐ₂: The corporate governance effects on BOD size.
H₀₃: The corporate governance has no affects on the shareholders.
Hₐ₃: The corporate governance affects on the shareholders.
H₀₄: Corporate governance does not include Managers and Employee representation.
Hₐ₄: Corporate governance includes Managers and Employee representation.

LITERATURE REVIEW:

Corporate governance entails the system with which companies follow their management policies. The participation of shareholders in the operations of any given company is essential. The calls for the implementation of the stakeholder’s model which seeks to create a well-built bond among all the stakeholders. This has ensured adequate safety for the shareholders’ investment as well as public confidence. In the same way, the company has involved various investors with the aim of strengthening its investment base. (Dozier, August, 2011)

(A. Adams, 2013) determine the impact of corporate governance on banks’ performance in Nigeria between 2005 and 2012. The study has been able to show that the Nigerian banking sector is affected by the level of corporate governance society being embrace. The continued existence and stability of any institution of the financial sector depend on the quality of its compliance with the codes of corporate authority. In spite of several reforms initiated to strengthen this sector, banks are still lying face down to failure which is a system by which corporations are governed and controlled with a view to growing shareholder’s value and gathering the hope of other stakeholders the issue of corporate governance should have been given the front burner status by all stakeholders of organizations in the economy.

Judging the excellence of corporate governance is personalized, from one side, to the nature of service that corporate governance offers and from the additional side to attention and demands of all the key stakeholders. This instrument has five extents: directing and monitoring, board capacity, assurance, responsiveness, reliability and responsiveness and confidence. By researching one can get better knowledge of the significance of dealings between stakeholders and corporation aiming to reach competitive advantage of the organizations the corporate governance in the countries with not sufficiently developed market institution, as well as of performing instructions for humanizing the corporate governance quality. The key query of stakeholder approach is clear meaning of priorities in providing services to stakeholders. In this sense it may be asked if it is an adequate amount of attention to the key stakeholders or sometimes the role of fewer significant stakeholders may be fundamental element (media, political factors etc.) (cedomir Ljubojevic, 2011)

Corporate governance affects the growth and performance of capital markets and exerts a
strong authority on resource allocation. In an era of increasing capital mobility and globalization, it has also become a key framework state affecting the industrial competitiveness and economies of Member countries. One of the most remarkable differences between countries' corporate governance systems is the difference in the possession and manages of organizations that stay alive from corner to corner of the countries. There is no single representation of outstanding corporate governance, and both internal and external systems have their strengths, weaknesses, and different economic implications. Strategy recommendations should attempt to account for the communications between corporate governance and the institutional structure in the particular country. The search for good carry out is supposed to be based on an recognition of what works in defined countries, to tell the difference what broad principles can be resultant from these experiences, and to inspect the circumstances for transferability of these practices to other countries (M. Maher and T. Andersson, Sep 2000).

The study of this research deals with the involvement of good authority practices to stakeholder's satisfaction. According to the author (W. B. Rejeb and M. Frioui) the good corporate governance conceptualization through three extents: Prerequisites (Governance structures and Directors' skills), Principles (accountability, responsibility, justice and clearness) and Mission (board monitoring and strategic guidance). The mean of this paper is to make obvious that the good governance practices are the key driver of stakeholder's happiness and their satisfactions and therefore a factor of a sustainable competitive advantage development in the upward the economies that do not have full of zip markets and sound external institutions with the influence to establish high-quality corporate governance practices. Confirming the relationship between stakeholder's and corporate governance satisfaction in a developing economy circumstance is significant for many reasons.

This article's main purpose is to mark the influence of corporate governance over mind as well as heart of shareholders belonging to a firm. According to the findings of (K. Pirzada and M. Ahmed), corporate governance holds worth and positive influence can be had on the effort of the firm. There is a well-built trust that firm's display of work can go up through improved arrangement of the corporate governance. Corporate domination has most important and efficient persuade over firm activities. There are optimistic indications of hike in firm's behavior through improvement in the corporate governance structure. Corporate standing has roots in beliefs about the position of the business corporation in the world; these beliefs are constructing in accordance with the preferences of prevailing stakeholders. Building on a stakeholder-power move toward to organization governance, we examine whether differences in the authorized rights and protections of shareholders, creditors, and human resources across country affect the general public's reputation assessments of corporations. (Abrahim Soleimani, 2014)

Corporations must be managed to support all, shareholders' rights. Activities in positive discrimination of non-shareholder citizenry such as consumers, employee's suppliers, or the Community at large can be apparently as a means of Management to raise their power and personal status. Stakeholders' interests can be taking to mean as opposing Shareholders rights to obtain fair returns for their investment. It is necessary to accomplish a wide consent on how to control Management actions in support of Stakeholders wellbeing. Domination experts and Academics, Governments and Corporations have, at least, two serious challenges at the forefront: One is to achieve a consensus on
The study of (C. Andrea) is whilst market forces lend great weight to implementation of the stakeholder theory, (the theory remains an ethical model and has not paying attention lawful hold up). Whilst the administration is not yet influenced of the reimbursement or necessity and for the most part the workability of the stakeholder theory, I will examine the ability of companies to put into practice the theory as a business ethic under current organizational Law. The reasoning behind home country cautious approach to the stakeholder theory of corporate governance may be as simple as .The key is to ensure that there is proper balance between the key stakeholders such as shareholders, suppliers and consumers, and to ensure that the controlling procedure is crystal clear and the consideration of the stakeholder interests should therefore, be part of any inclusive modification of home country that corporate governance.

The varying environment of the firm in today’s organizational world, viewing shareholders as the sole residual claimants is a more and more tenancy description of the authentic relations among a firm’s a range of stakeholders. An investor capital perception is gradually more not good enough for the purpose of truly answering the two fundamental questions about the theory of the firm (the economic worth formation, and the allocation of that economic value). The point of view outlined in this document provides for a more accurate bearing towards both measuring economic value creation, and analyzing the distribution of that value. The main point here is that it is far superior to have a rationally accurate consideration of the rights (stakeholder) problem in the discipline of strategic management than accurate and perhaps even exact answers to less relevant or contrived (shareholder wealth) questions. (Joseph Mahoney, 2005)

Corporation has for all time had interaction with their stakeholders, which include share owners, customers, suppliers, employees, local communities and regulators. In fact, it would be difficult for a company to stay in business if it did not work with the wellbeing of these key groups in mentality. When engaging with its stakeholders, a business is acknowledging that it is a mutually dependent entity, which is impacted by and has an impact on many different groups for many companies. Taking stakeholder concerns and interests into account can improve dealings, which may make it easier for a company to operate, show the way to thoughts for the products or services that will deal with stakeholder needs, and allow the company to cut down their costs and maximize value and the author have also found correspondence among stakeholder
performance indicators and conventional measures of corporate profitability and growth and it is an important aspect of corporate accountability. (Z. Petter, 2009)

The raising face up for those who assume good corporate governance is naturally go hand-in-hand and the severity of the organization problems that may arise between managers and shareholders. There may still be very serious difficulties associated with the valuable organizational of this obligation. It also suggests that if we make wider decision-making responsibility, in order to include all-embracing tasks to diverse the other stakeholder groups, we may seriously make worse these organization problems, making it even more easier said than done to impose successful discipline upon managers In fact, the public-sector management presents a number of harsh warnings, which we would do well to heed if we wish to reconcile robust effective corporate governance. (Norman, 2004)

**METHODLOGY**

A descriptive research methodology is used for this study to examine the corporate governance of the sugar sector. The data is collected by questionnaire from different organization to study the relationship between the stakeholders and their firms. And use Chi-square for the evaluation of the hypothesis.

**Source of Data**

The primary source of data is used to analysis the impact of corporate governance on the stakeholder.

**Variables**

The dependent variables of the research are,

- Firm performance
- BOD Size
- Manager & Employees
- Shareholders

The independent variable of the research is,

- Corporate governance

**Tools of Analysis:**

The tool of analysis of this research is

1. Chi-square ($\chi^2$)
2. Graphical Representation

**Chi-Square ($X^2$) Test:**

Table 1:

Testing hypothesis, one: This is tested based on the associated questions in the questionnaire on the outlook of corporate governance in all its effect on firm performance. The represent chi-square values in the table are analyzed below in the conclusion and summary.

<table>
<thead>
<tr>
<th></th>
<th>(A)</th>
<th>(B)</th>
<th>(C)</th>
<th>(D)</th>
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<tbody>
<tr>
<td>Chi-Square</td>
<td>69.360$^a$</td>
<td>185.733$^b$</td>
<td>74.280$^c$</td>
<td>92.280$^c$</td>
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<tr>
<td>Df</td>
<td>1</td>
<td>3</td>
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<td>2</td>
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<td>Asymp. Sig.</td>
<td>.000</td>
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a. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 75.0.
b. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 37.5.
c. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 50.0

**Table 2:**

Testing hypothesis two: This is tested base on the associated questions in the questionnaire on the outlook of corporate governance board of director size. The represent chi-square values in the table below are analyzed in the conclusion and summary.
Test Statistics

<table>
<thead>
<tr>
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<th>(A)</th>
<th>(B)</th>
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<tbody>
<tr>
<td>Chi-Square</td>
<td>56.427&lt;sup&gt;a&lt;/sup&gt;</td>
<td>83.013&lt;sup&gt;b&lt;/sup&gt;</td>
<td>16.480&lt;sup&gt;c&lt;/sup&gt;</td>
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<tr>
<td>df</td>
<td>1</td>
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<tr>
<td>Asymp. Sig.</td>
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</table>

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b. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 37.5.

c. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 50.0.

**Table 3:**

Testing hypothesis three: This is tested base on the associated questions in the questionnaire on the outlook of corporate governance effects on the shareholders. The represent chi-square values in the table below are analyzed in the conclusion and summary.

Test Statistics

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<tbody>
<tr>
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<td>15.360&lt;sup&gt;a&lt;/sup&gt;</td>
<td>51.120&lt;sup&gt;b&lt;/sup&gt;</td>
</tr>
<tr>
<td>df</td>
<td>1</td>
<td>1</td>
<td>3</td>
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<tr>
<td>Asymp. Sig.</td>
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a. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 75.0.

b. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 37.5.

c. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 50.0.

**Table 4:**

Testing hypothesis 4: This is tested base on the associated questions in the questionnaire on the outlook of corporate governance includes their Managers and Employee representation's. The represent chi-square values in the table are analyzed below in the conclusion and summary.

Test Statistics

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<th>(B)</th>
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<tbody>
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<td>16.480&lt;sup&gt;c&lt;/sup&gt;</td>
</tr>
<tr>
<td>df</td>
<td>3</td>
<td>1</td>
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</tr>
<tr>
<td>Asymp. Sig.</td>
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</tr>
</tbody>
</table>

a. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 37.5.

b. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 75.0.

c. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 50.0.

**Graphical Representation**

**Analysis of Table 1**

The test result shows that the statistical significant for chi-square is GOODNESS FOR FIT. P-Value of the result is .00 which is less than 0.05, so we reject the Null-Hypothesis. So that the corporate governess have an affect of firm performance.
Analysis of Table 2
The test result shows that the statistical significant for chi-square is GOODNESS FOR FIT. P-Value of the result is .00 which is less than 0.05, so we reject the Null-Hypothesis. So, that the corporate governess have an affect of board of director size

Analysis of Table 3
The test result shows that the statistical significant for chi-square is GOODNESS FOR FIT. P-Value of the result is .00 which is less than 0.05, so we reject the Null-Hypothesis. So, that the corporate governess has an effect on the shareholders

Analysis of Table 4
The test result shows that the statistical significant for chi-square is GOODNESS FOR FIT. P-Value of the result is .00 which is less than 0.05, so we reject the Null-Hypothesis. So, that the corporate governess has an includes their Managers and Employee representation's

Analysis of Graph:
The graphical result shows that the degree of freedom of shareholder is 1.666667 and firm performance, BOD size and Manager & employee representation is 2. Degrees of freedom (DF) are the number of independent pieces of information about a statistic. The degrees of freedom for the chi-square is goodness-of-fit test. Minitab uses the degrees of freedom to determine the test statistic that, the more degrees of freedom you have. Furthermore, the hypothesis tested from the administered questionnaire which is basically set towards solving the research problems and the result of the analysis indicated that corporate governance has significant impact on firm performance and board size and the good corporate governess should include their Manager & employees representation.

Conclusion
Corporate governance is assembly together a group of smart, accomplished people around a board table to make good decisions on behalf of the company and its stakeholders. The good corporate governess gives positive affect on their performance, board of director size, Manager & employees and shareholders of the firms.

The test result shows that the statistical significant for chi-square is GOODNESS FOR FIT. P-Value of the result is .00 which is less than 0.05, so we reject the Null-Hypothesis so, that the corporate governesses have impact on firm performance and board size and the good corporate governess should include their Manager & employees representation.

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Furthermore, the hypothesis tested from the administered questionnaire which is basically set towards solving the research problems and the result of the analysis indicated that corporate governance has significant impact on firm performance and board size and the good corporate governess should include their Manager & employees representation.

Areas of Further Research
Due to the importance of corporate governance on organizational management, recent trend has revealed that to achieve corporate success and economic growth, it can no longer be ignored or underestimated. To further explore the relationship between corporate governance and stakeholders, the following have been identified as areas for further research.

Analyzing the impact of uncoordinated multiplicity of codes from regulatory authorities on the firms profitability, will help to determine whether it should be encouraged in the system or not and will equally depict whether it has been a contributing factor to abandon corporate governance by sugar sector of KSE.
REFERENCES


