An Investigation of Corporate Governance and Firm Performance after Revised Code 2012 in Pakistan

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Abstract

This study aims to examine the impact of corporate governance on the performance of listed firms after the adoption of a revised code of corporate governance (CCG) 2012 in Pakistan as main objective and recommend suitable corporate governance practices for improving the performance of the listed organization. To attain these objectives, in this study use return on equity and return on assets, as the key variables that defined the performance of the firm. Moreover, Board size, Board meetings and audit committee of the organization are used as variables to measure the corporate governance, also company size and firm age used as moderating variables. The data is comprised of the top 100 listed companies as the sample size for the sample period of 2013-2015. The data will be collected by using the secondary sources. According to the analysis, constructs of corporate governance significantly impact on a firm’s performance, and board size has a positive impact on a firm’s performance. However, meeting frequency and audit committee size has no impact on a firm’s performance.

Keywords: Corporate Governance, Performance, Analysis, Code of Corporate Governance Pakistan

Introduction

Corporate governance has a significant research area, which deals with the several governance activities used to control the corporation for the purpose of maximizing shareholders (owners) wealth. The corporate governance structure should promote transparent and well-organized markets, be consistent with the rule of law and clearly express the division of tasks among different administrative, directing and implementation experts.

Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined,” (OECD, 2015, p.9). Corporate governance is the most important for international development as stated by James Wolfensohn that "the governance of the corporation now plays an important role in the world economy as the government of countries" (Wolfensohn, 1998). An important measure of corporate boards’ monitoring power and effectiveness is the frequency of board meetings (Lipton and Lorsch 1992; Jensen 1993). Corporate board meetings play an important role in the governance, conformance, and performance of companies (Lipton and Lorsch 1992; Jensen 1993).

Good corporate governance can be an advantage to avert corporate scandals, deception, and impending civil and unlawful obligation of companies. The revelation of corporate fraud generally occurs at the beginning of economic downturns that may independently drive households’ decisions to reduce their equity holdings (Povel, Singh, and Winton 2007; Wang, Winton and Yu, 2010). Good corporate governance enhances the image and reputation of a company and makes it more alluring to investors, suppliers, customers and other stakeholders of the company. There is evidence from many types of research that good corporate governance engenders direct economic benefit to the company, making it more remunerative lucrative and competitive.

For investors, one of the most paramount aspects when making an investment decision is on the level of implementation of corporate governance principles (public report of reference, a buttress of lender rights and approach treatment of shareholders) and profitability, which ascertains return on their investment. Hence it's vital to look at through this study relationship between corporate governance and firm performance of listed companies in Pakistan. Research Question is whether or not the company governance that has an effect on the performance of a firm’s?

The purpose of this study was to investigate the impact of corporate governance on firm’s performance in listed companies in Pakistan as a result of revised CCG 2012 the adoption of corporate governance practices. The main objectives of this study are presented as follows:

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To determine the relationship between corporate governance and firm’s performance on listed companies in Pakistan.

To demonstrate the effect board size, frequency of board meeting and audit committee size on the listed companies in Pakistan.

To suggest an appropriate level of corporate governance mechanism to improve the firm’s performance to the listed companies in Pakistan.

In Pakistan, the Codes of corporate governance lead by Security and Exchange Commission of Pakistan (SECP) in early 2002 and revised CCG 2012 which are the major step towards the growth of corporate landscape in Pakistan. These Codes consist of many endorsements in line with international best practice. The major areas of enforcing the reason behind the selection of listed companies in Pakistan the listed companies revised CCG 2012 has been one of the fastest growing fragments of the economy, with the overall growth being demonstrated in the expansion of the institutional structure and developments in money and capital markets, infrastructure, facilities and products. The research will be done on a sample of 100 top firms listed on the Stock Exchange of Pakistan between 2013 and 2015.

Review of Literature and Previous Studies

The discussion on the effect of corporate governance constructs on firm performance has been explored in many studies all over the world. This part will review some of these studies that are identified with our review in by one means or another from different countries.

Siriwardhane (2008) concluded that board size and company performance is positively related with respect to ROE and also it is found that the contribution of an additional director is decreased when the board size and company performance is increased. In other words, high performing corporations, which already have a high average board size, do not gain much if an additional board member is joined.

According to the Waduge (2011) research, corporate governance represents institutional structures and incentive mechanisms that are implemented in order to mitigate the principal-agent problem and to thus promote the long-term competitiveness of the firm. Best practice corporate governance emphasizes accountability, transparency, shareholder rights, efficiency, and the performance of the firm. Guo and Kumara (2012) carried out research to test the effect of corporate governance measures on firm performance in Sri Lanka. The study sample consists of listed firms from the Colombo stock exchange. Findings found that the size of the board of directors is negatively associated with the value of the firm and the effect of the proportion of outside directors on the operating performance of a firm.

One theoretical proposition is that the frequency of board meetings measures the intensity of a board’s activities, and the quality or effectiveness of its monitoring (Vefeas, 1999; Conger et al., 1998). All else equal, a higher frequency of board meetings can result in a higher quality of managerial monitoring, and thereby impacts positively on corporate financial performance (Vefeas 1999b; Ntim, 2009). Also, it has been contended that regular meetings allow directors more time to confer, set strategy, and to appraise managerial performance (Vefeas 1999). This can help directors to remain informed and knowledgeable about important developments within the firm, and thereby place them in a better position to timely address emerging critical problems (Mangena and Tauringana, 2008).

An independent audit committee may help in ensuring the reliability of the financial reporting process by keeping a check on manipulative, self-centered activities of managers. Governance Codes all over the world require firms to set audit committees and ensure their independence. Firms that have more independent members in their audit committees have a lesser probability of becoming victims of fraud (Beasley, 1996). Menon and Williams (1994) considered two audit committee traits (meeting frequency and independence) to ascertain if the board directly relied on audit committee as a tool to control managers and found that these two characteristics improved the monitoring of the firm, and could thereby improve its performance. Several studies observing the relationship between audit committee meeting frequency and firm performance have given mixed results. Abdul and Haneem (2006) and Mohd Saleh et al. (2007) provided evidence that lesser number of audit committee meetings improved financial performance of the firm as it reduced the additional cost that was incurred with every meeting, but Kyereboah-Coleman (2008) established favorable outcome of frequent audit.
committee meetings on market measures of firm performance

Adjaoud et al. (2007) reported that there is little evidence of a systematic relationship between the characteristics of the board. Bhagat et al. (2000) and Weir et al. (1999) observed a positive relationship between corporate governance and firm performance.

The Code of Corporate Governance (2002 and 2012) issued by the Securities and Exchange Commission of Pakistan defines the following principles for international best practices.

The agency theory is an assumption that explains the relationship between principals and agents in the business. Agency theory is concerned with conflict of interest between people with multiple interests in the same assets. Among the measures established to reduce the self-serving nature of the agent is an independent AC. Therefore in order to reduce information asymmetry, there is the need for governance mechanisms such as board subcommittees composed of directors with the appropriate attributes such as independence, expertise, and experience to prevent or reduce the selfish interest of the agent (Wiseman et al., 2012).

Corporate Governance in Pakistan

Role of the Board of Directors

1. The business of a firm is organized under the supervision and direction of a board of directors who deputies to the CEO and other management staff for day to day management of the matters of the firm.
2. The board sees to the employment, reward, monitoring, and firing (in inferior case) the senior manager.
3. Oversight of irreconcilable insider situations, including abuse of organization resources and mishandle in related gathering exchanges.
4. The directors, with their enormous wealth of experience, provide control and direct the affairs of the business with a high sense of veracity, commitment to the firm, its business plans and long-term shareholder value.
5. The board provides other fiduciary duties.

The CEO and Management

They are accountable for:

1. Operating the organization in an effective and virtuous manner.
2. Setting up the key arrangements and yearly working arrangements and budget plans for the board's endorsement.
3. The veracity of the firm’s financial reporting system that properly presents its financial position. The financial reports are relied upon to comply with relevant statutory and expert professions.
4. Building up a powerful arrangement of internal controls to give sensible affirmation that the association's books and records are exact, its benefits protected and appropriate laws agreed to.

The Role of the Audit Committee

The audit committee in addition to other things is accountable for endorsement to the board of directors; the hiring of external auditor(s) by company’s shareholders, their firing and propose their remuneration from the approval of shareholders in AGM.

The committee has the following intentions: (CCG 2012)

1. Decide the proper measures to protections company’s assets.
2. Review the primary declarations of results prior to publication.
3. Assessment of the quarterly and annual financial statements of the Company, prior to their endorsement by the board of directors.
4. Assisting external auditors and managing internal and external auditors.
5. Analyze the scope and extent of internal audit and ensuring that the internal audit function has sufficient resources.
6. Determine the internal control system including financial and operational control, accounting system and reporting structure are satisfactory and effective.

7. Review the company’s statement on internal control system prior to approval by the board of directors.

8. Assurance of consistency with important statutory necessities.


Corporate Governance Mechanisms

There are numerous progressions or factors that may organize benchmarks by which corporate governance can be measured by the firm. Some of these methods are briefly discussed following.

Table 1: Independent variable

<table>
<thead>
<tr>
<th>Variables</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>BSIZE = Board size</td>
<td>Total members on the board</td>
</tr>
<tr>
<td>MFREQUENCY = Meeting Frequency</td>
<td>The number of the board meeting</td>
</tr>
<tr>
<td>AUDCOM = Audit committee</td>
<td>The composition of the audit committee that is, outside as a proportion of the total directors</td>
</tr>
</tbody>
</table>

Control Variables

<table>
<thead>
<tr>
<th>Variables</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSIZE = Company size</td>
<td>Natural log of total assets</td>
</tr>
<tr>
<td>Firm Age= Firm Age</td>
<td>Is the number of years since the founding of the company</td>
</tr>
</tbody>
</table>

Board Size

Corporate Governance Codes endorse boards not to be too big and an ideal size of board depending on the size and expansion of the organization. Jensen (1993) attributes the ineffectiveness of large boards to the rather undue emphasis on courtesy politeness associated with bigger groups rather than being frank and truthful. Some board members are implicitly coerced into agreeing to boardrooms decisions albeit; with some reservations which they fail to voice out. The agency problem also increases with board size as there are more conflicting groups representing their own diverse interests. In addition, Free-riding also increases as some directors neglect their monitoring and controlling duties to other colleagues on the board. Brown and Caylor (2004) also suggest that a board size between 6 to 15 members is ideal to enhance the firm performance.

Yermack (1996) documented that those firms having small board sizes have a higher stock market value. He finds an inverse relationship between firm value and board size by using a sample of large United States corporations. Mishra et al. (2001) stated that board in small size helps to make the decision more swiftly. Kathuria and Dash (1999) discussed that firm's performance grow up if the board size increased but the contribution of an additional board member reduces as the size of the board increases. Studies that find a negative relationship between board size and firm performance include Eisenberg et al. (1998), Carline et al. (2002), and Mak and Yuanto (2002). Aggarwal et al. (2007) found no relationship between board size and firm valuation.

Board Meetings

All written notices, including the agenda, of meetings, shall be distributed at least seven days before to the meetings, excluding in the case of emergency meetings, where the notification period may be condensed or ignored. The Chairman shall certify that the minutes of meetings of the board of directors are properly recorded. The Company Secretary shall be secretary to the board. In the event that a director of a listed firm is of the understanding that his recalcitrant note has not been properly recorded in the minutes of a meeting of the Board of Directors, he may discuss the matter to the Company Secretary. The director may need the note to be affixed to the minutes, failing which he may file a demurrer with the Securities and Exchange Commission of Pakistan (SECP) in the form of a statement to that consequence. The demurrer may be filed with the SECP within 30 days of the date of confirmation of the minutes of the meeting.
Mangena and Tauringana (2008) report a positive relationship between the frequency of board meetings and corporate performance for a sample of 157 Zimbabwean listed firms over the period 2001-2003. According to SECP and the CCG 2012, Pakistan Board should meet regularly and as warranted by specific situations, as deemed appropriate by the board members. Companies are encouraged to improve their Articles of Association (or other constitutive documents) to provide for telephonic and video-conference meetings. The number of meetings of the Board and board committees held in the year, as well as the attendance of every board member at these meetings, should be revealed in the company’s Annual Report. This suggests that CCG 2012 expects a higher frequency of board meetings to impact positively on corporate financial performance.

Audit Committee

The audit committee is seen as an important element of corporate governance because independent directors of the audit committee can, through different monitoring procedures, keep in check the faulty conduct of managers. Cohen (2011) argued that the independence of the audit committee was an important part of audit committee effectiveness. Klein (2002) reports a negative correlation between earnings management and audit committee independence. Anderson et al. (2004) find that entirely independent audit committees have lower debt financing costs.

In every listed company board of directors shall form an Audit Committee, at least of three members consist of non-executive directors. The chairman of the committee shall be an independent director, who shall not be the chairman of the board. The board shall gratify itself such that at least one member of the audit committee has relevant financial skills/expertise and experience. It is necessary that the Audit Committee of a listed company shall meet at least once every quarter of the financial year. These meetings shall be held prior to the approval of interim results of the listed company by its Board of Directors and before and after completion of the external audit. A meeting of the Audit Committee shall also be held if requested by the external auditors or the Head of Internal Audit.

Al-Mamun (2014) was of the view that regular meetings of the audit committee could help reduce agency problems and information asymmetry of a firm by providing fair and timely information to investors. DeZoort et al. (2002) suggested that a company where the audit committee met more frequently was likely to be more careful in safeguarding the interest of its investors. Bryan, (2004) investigated the recommendations of Blue Ribbon Committee (1999) with regard to improvement in the efficiency of corporate audit committees and argued that audit committees would strengthen financial reporting practices when there were more independent and financially literate members who committed adequate time to the board and met recurrently.

Velnampy and Pratheepkanth (2012) state that there is an impact of corporate governance on ROE and ROA. However, the impact of corporate structure on ROE and ROA is higher than the board structure while the impact of board structure on net profit is higher than the corporate reporting. Further, the study found a positive relationship between the variables of corporate governance and firm’s performance.

Hypotheses of the Study

In this study based on a theoretical framework following hypotheses are formulated to test:

- **H0**: The implementations of corporate governance strategies have no impact on the firm performance.
- **H1**: The implementations of corporate governance strategies have an impact on the firm performance.
- **H1A**: The board size has a negative impact on firm performance.
- **H1B**: The number of board meeting has a negative impact on firm performance.
- **H1C**: The composition of the audit committee has a positive impact on firm performance.

Methodology

Data Sources and Sampling Design

To accomplish the above-mentioned objectives and hypotheses, the data for this study has been taken from audited annual reports of the corporate websites of the relevant firms and the Pakistan Stock Exchange publications and website. Listed
Firms (729 Listed companies in Pakistan Stock Exchange) are the population for this study. For this analysis, the judgment sampling technique is used. 100 indexed companies selected as sample of the study. There are several reasons for using judgment sampling technique and selection of top 100 indexed companies. First, these 100 companies contain 90% of capitalization in Pakistan. Second, these 100 companies are the top companies in Pakistan because of that these company having enough resources to implement the Code of Corporate Governance issued in Pakistan. Third, these top 100 indexed companies contain multiple sectors of the economy, and this research contains multiple sectors of the Pakistani economy.

Figure 1: Self-constructed for study

Periods of Study
In order for any performance indicator to be analytical, a single point of the measure would be worthless, and that predict would need to be grounded around a time series of measures indicating how performance is changing in time, thus consenting one to predict what may be the story in future. It is supposed that when indicators used in a time series format, brings organizations one step closer to having predictive performance measurement systems (Bourne et al., 2000; Neely et al., 1995).

In Pakistan Code of best practices of corporate governance was introduced in 2002 and revised Code in 2012. Therefore, this study utilizes secondary data after the modification in Code of corporate governance in 2012 that collected over the sample period of three years (2013, 2014, and 2015).

Mode of Analysis
Different statistical processing tools have been used in this study. For the statistical processing of data exclusively applicable software SPSS programmed is used. Here, Correlation, Regression, and descriptive statistics are applied to data analysis. The regression analysis used to determine the coefficient correlation between independent and dependent variables (Gorriz & Fumas, 2005; Anderson & Reeb, 2003). Independent variable board size, board meeting frequency and Audit committee and Dependent variable return on asset (ROA) and return on Equity (ROE) are used in this study.

Dependent Variables
Two dependent variables were discussed in this study, i.e., return on equity (ROE), and return on assets (ROA). Different empirical studies use financial methods to investigate the relation between corporate governance and firm performance and those measures fit into accounting measures as well as market measures (Kiel & Nicholson 2003). Accounting measures such as return on assets (Kiel & Nicholson 2003) and return on equity (Baysinger & Butler 1985) are the most commonly used in prior corporate governance studies.

Return on equity (ROE) has been deliberated as one of the most important and ordinarily used financial profitability ratios. Most of the researchers have employed ROE as a firm performance measure in their studies. Return on equity is a significant indicator because it expresses how the firm has utilized the resources of the owners. This ratio imitates the level to which the purpose of the increase in shareholders wealth has been accomplished.

Return on assets (ROA) was chosen in the study to check the operational performance because of its virtual use in previous studies work in determining how profitable a firm is. Research which was conducted by Coleman (2008), to
determine the effect of corporate governance on African firm performance; return on assets was also included to explore how profitable a firm was.

**Control Variables**

Two control variables will be used for this model of our study. These are Firm Size and Firm age. Many researchers have explained the link between firm size and firm performance in a number of ways. Firm size is one of the most important control variables in our study. Firm Size can be calculated if we take the natural log of total assets. In the case of return on assets is the dependent variable. Hence, firm size will be calculated as the natural log of net sales. Firm size can be “retarded” if a family management team is reluctant to raise external funds because it fears it will entail a loss of family control (Yasser, 2011). Daily and Dollinger (1993) argue that some family companies operate without growth plans. Firm age is the total number of years from which a firm is starting their operations. Sami et al. (2011) indicated that both of the financial growth, as well as the capital structure of firms, are impacted by the age factor. Furthermore, at the starting point of any business, firms are expected to have more expenses as they have less experience in the market. As a result, the total cost structure of new firms is higher than old firms. The variability of firm growth and the probability of firm dissolution (Evans, 1987).

**Results and Discussion**

The following are the results which have been drawn from the analysis of data collected from the top 100 indexed Firms from Pakistan stock exchange.

Table 2: Descriptive Statistic (N=100)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA</td>
<td>-11.11</td>
<td>46.39</td>
<td>8.79</td>
<td>8.63</td>
</tr>
<tr>
<td>ROE</td>
<td>-10.28</td>
<td>327.19</td>
<td>27.23</td>
<td>36.08</td>
</tr>
<tr>
<td>Board size</td>
<td>5</td>
<td>15</td>
<td>9</td>
<td>2.15</td>
</tr>
<tr>
<td>Board Meeting Frequency</td>
<td>5</td>
<td>12</td>
<td>6</td>
<td>1.55</td>
</tr>
<tr>
<td>Audit committee size</td>
<td>3</td>
<td>8</td>
<td>4</td>
<td>1.05</td>
</tr>
<tr>
<td>Company size =total assets</td>
<td>2</td>
<td>3</td>
<td>2.79</td>
<td>0.076</td>
</tr>
<tr>
<td>Firm Age</td>
<td>10</td>
<td>102</td>
<td>39.18</td>
<td>20.51</td>
</tr>
</tbody>
</table>

Table 2 indicates the average value of ROE and ROA over the three years period are 27.23% and 8.79% respectively. That determines a not extraordinary performance of the financial in Pakistan understudy period because minimum ROE and ROA are -10.28 and -11.11 in that order. Mean value of board size is 9 which shows that most of the firms have moderate board size as 9. The average number of meeting frequency is 6 which point towards a normal board met after two months in a financial year. But when observing the maximum and minimum value of meeting frequency, results more deviation between them and very few firms make this deviation as wide. Average value of audit committee size is 4 which show that most of the organizations in Pakistan have 4 members as its audit committee size.

Table 3: Correlations Analysis (N=100)

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) ROE</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2) ROA</td>
<td>0.72**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(3) Board Size</td>
<td>0.16**</td>
<td>0.10</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(4) Board Meeting Frequency</td>
<td>-0.00</td>
<td>0.05</td>
<td>-0.17**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(5) Audit committee Size</td>
<td>0.07</td>
<td>0.09</td>
<td>0.21**</td>
<td>0.14*</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(6) Company Size</td>
<td>0.22**</td>
<td>0.24**</td>
<td>-0.00</td>
<td>-0.08</td>
<td>0.06</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>(7) Firm Age</td>
<td>0.15*</td>
<td>0.17**</td>
<td>0.03</td>
<td>0.07</td>
<td>0.04</td>
<td>0.03</td>
<td>1</td>
</tr>
</tbody>
</table>

**Correlation is significant at the 0.01 level (2-tailed).**

*Correlation is significant at the 0.05 level (2-tailed).
Table 3 indicates that the result of the study calculated through inferential statistical techniques. Pearson correlation coefficient is calculated in Table 3 which shows that there is a positive and significant relationship between board size and firms performance (ROE) the independent variable, however, the control variables (company size and firm age) are positive significantly correlate with firm performance (ROA and ROE).

Table 4: Regression Analysis

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>ROA</th>
<th>ROE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board Size</td>
<td>1.80</td>
<td>2.83*</td>
</tr>
<tr>
<td>Board Meeting Frequency</td>
<td>1.20</td>
<td>0.51</td>
</tr>
<tr>
<td>Audit committee Size</td>
<td>0.63</td>
<td>0.17</td>
</tr>
<tr>
<td>Company Size</td>
<td>4.25*</td>
<td>3.87*</td>
</tr>
<tr>
<td>Firm Age</td>
<td>2.80*</td>
<td>2.43*</td>
</tr>
<tr>
<td>R-Square</td>
<td>10%</td>
<td>9.5%</td>
</tr>
<tr>
<td>Adjusted R-Square</td>
<td>8.5%</td>
<td>8%</td>
</tr>
<tr>
<td>Probability</td>
<td>0.000</td>
<td>0.000</td>
</tr>
</tbody>
</table>

Return on assets (ROA) and return on equity (ROE) is regressed on rest of the explanatory variables. Regression results show that the F value of the model .0000 is less than .05 which means that fit is good for the data. Value of R-square is .10 and .095 which means 10% and 9.5% variation independent variable return on assets and return on equity is described by the explanatory variables of the model.

Table 4 represents the documents that there is a positive and significant association of company size and firm age the control variables of the company, however, there is no significant relationship between board size, board meeting frequency, and audit committee size (Independent variable) with ROA. Miwa and Ramseyer (2005) found no significant relation between Japanese board size and firm performance. Some studies found that there is no significant relationship between board meetings and firm performance (Kyereboah-Coleman, 2007; Mohd, 2011). Finding related to board size is in line with the results of Denis and Sarin (1997) and Ujunwa (2012). (Harvey Pamburai, Chamisa, et al. 2015) also, bear out that board meeting has no impact on firm profit.

Table 4 also indicates that there is a positive and significant relationship between board size (the number of board members) with the firm performance (ROE). This result indicates a similarity with the forecast of resource dependence theory, recommending that a board with high levels of association with external environment can increase company access to different resources, therefore positively affecting firm performance. Empirical results of (Dwivedi & Jain, 2005; Coles et al., 2008; Ehikioya, 2009) also indicate that board size has a positive association with firm performance. Meanwhile, company size and firm age are also positively and significantly associated with the return on equity in Pakistan.

Based on the consequences, it is found that there is a significant relationship between the corporate governance mechanism and firm performance. Meanwhile, Meeting frequency and audit committee size have no impact on the performance of the organization after the adoption revised CCG 2012 in Pakistan. Board size has a significant impact on the performance of the organization after the adoption revised CCG 2012 in Pakistan. Increases in board size give a positive impact to the firm performance. Meanwhile, company size and firm age are also positively and significantly associated with the return on equity in Pakistan. So H1 is rejected, and H0 is accepted.

**Conclusion**

The purpose of the study was to investigate the impact of revised CCG 2012 which was implemented from July 2013 onward. 2013 was the most important year for the implementation of revised code and to check the regulator mechanism of CG and its impact of firm performance which is the ultimate goal of the SECP. This study examined the whether the corporate governance factors have any significant impact on the firm performance in Pakistan after the adoption of revised CCG 2012 best practices. On the basis of findings, it is documented that corporate governance practices of meeting frequency and audit committee size have no significant impact on firm performance and board size have a significant impact on firm performance. Board size is positively related with firm’s performance, but audit committee size and meeting frequency have no relation.
Further, it can be concluded that corporate governance can be improved in Pakistan by firms maintain their board size to nine directors. As per agency, theory stated the board size and performance are having an obvious and direct relationship with firm performance (Agent and Principle) context. By increasing the number of Board member as per requirement of Revised CCG 2012, there must be a large number of independent and non-executive directors on the board and shall input and bring their professional expertise which defiantly impact.

References


