RESEARCH ARTICLE

The impact of Board Experience on Firm Performance: Evidence from Pakistan

Amir Sohail[1], Yingbo Wang[1,2*], Wahid Raza[3]

[1]College of Business Administration, Liaoning Technical University, Liaoning, Fuxin, China
[2]School of Innovation and Practice, Liaoning Technical University, Liaoning, Fuxin, 123000
[3]Govt College of Management Sciences, Karak, Pakistan

Corresponding author: Yingbo Wang: wybustb@126.com

Abstract

This study shows that how Board experience as corporate governance Facets effect on firm performance (Evidence from Pakistan). The sample size of the study was 100 non-financial companies listed on Pakistan Stock Exchange selected through purposive sampling technique while covering the time period from 2010 to 2019. The result concluded that a significant relationship exists between Board working Experience (BWE) and Firm Performance. The result shows that increase the percentage of board working experience can better monitor all the activities of firms and avoid the firms to get higher debts which leads to better firm performance and mitigate the Effect of Default Risk. The importance of the study is that it highlights the different dimensions of female Board Member as corporate Governance facets which may be useful for investors before making any investment decisions. The existing literature is mostly related to the developed countries. In this view, this study may also have enhanced contribution in the literature because its results pertain to an emerging economy of Pakistan.

Introduction

Due to financial crises and the globalization of business practices, corporate governance has become a hot topic in study. Failures in corporate companies all over the world sparked an extraordinary interest in corporate governance mechanisms and standards. Over the last two decades, several empirical studies have been done to study the link between corporate governance and a firm's global success. Similar studies in the setting of Pakistan, on the other hand, are extremely rare. In Pakistan, studies on this issue are mostly qualitative, with references to the history of corporate governance in Pakistan utilizing legal documents. Effective corporate governance mechanisms and practices aim to optimize investment allocation, reduce risk exposure, and foster efficient markets that contribute to economic growth. Corporate governance is the structure of rights and responsibilities among the parties with an interest in a company (Gafoor, Mariappan, & Thiyagarajan, 2018). A corporate governance system can be defined as a set of processes and structures used to direct the operations of a corporation. A key goal of a corporate governance system should be to increase shareholder wealth.

An effective corporate governance system, once implemented, can help to ensure an appropriate division of power among shareholders, the board of directors, and management (Abdullah, 2020).

(Bairathi, 2009) claims that "Corporate governance is more than just corporate management; it encompasses a fair, efficient, and transparent administration to achieve well-defined goals." It is a method of structuring, operating, and controlling a business in order to satisfy shareholders, creditors, employees, customers, and suppliers while also meeting legal and regulatory requirements and meeting environmental and local community needs. Corporate governance improvement is one of the most important aspects of laying a solid foundation for a company's long-term success. Corporate governance, on the other hand, is a topic that has sparked a lot of discussion. To understand why these arguments are made, one should look at the essence of the debate (Ibrahim, Rehman, & Raoof, 2010).

In Pakistan, the primary regulatory authority overseeing these matters is the Securities and Exchange Commission of Pakistan (SECP), established by legislation in 1997. The SECP is responsible for supervising and regulating non-financial sectors, having replaced the corporate law authority division under the Ministry of Finance. While independent, the SECP's chairperson is appointed by the Finance Ministry. The State Bank of Pakistan (SBP), the country's central bank, regulates the banking sector and financial institutions, while the SECP has introduced distinct codes for insurance companies, but not yet for mutual funds.

The SECP issued a corporate governance code in 2002, later revised in 2012. Governance of the banking sector follows the Banking Companies Ordinance of 1962, while the corporate sector is now regulated under the Companies Act of 2016, replacing the Companies Ordinance of 1984. Listed companies are required to disclose financial statements on their websites, provide half-yearly progress within 60 days, and submit quarterly accounts within 30 days to the SECP. Additionally, dividend distribution within 45 days of declaration is mandatory. The code also addresses governance within the Pakistan Stock Exchange (PSX), specifying procedures for appointing and removing managing directors. It mandates that the board's chairperson must be a member of a brokerage firm and establishes a minimum 12.5 percent shareholding for minority shareholders during director appointments. Annual General Meetings (AGMs) must be conducted by all listed companies at the end of each fiscal year, and code implementation is obligatory for listed companies.

Based on the above discussions on the topic and identifying the research gap, we understand that this paper can contribute well to the existing literature in context of broad experience on firm performance.

The remaining parts of the study as structured as follows; part 2 present the literature review of the past studies on the topic, part 3 is composed of methodology, part 4 present the detail results and discussions while part 5 conclude the paper.

Literature Review

After the financial crisis of 2008, which resulted in the collapse of numerous financial institutions and the virtual bankruptcy of several sectors, there has been a surge of interest in corporate governance from researchers, academicians, and governments, including global organizations. According to (Cheffins, 2013), corporate governance became popular in the United States in the 1970s. Corporate governance has become increasingly crucial in the wake of the collapses of Enron and Arthur Andersen in the United States, as well as analogous tragedies in the United Kingdom, such as Marconi. As a result, international organizations are concerned about challenges of governance. The International Monetary Fund has asked that the debt reduction scheme include governance changes (Khanchel, 2007). The Organization for Economic Cooperation and Development (OECD) released its influential OECD principle of corporate governance in 1999, with the goal of assisting member and non-member countries in evaluating and improving their legal, institutional, and regulatory framework for better corporate governance (Nestor & Thompson, 2001).

Board Experience level

It is claimed that board members with a higher average age will have significantly more experience than those with a lower average age. This experience is expected to improve a company's performance. Older board members, on the other hand, appear to be more aggressive and dictatorial in their decision-making. Even though there has been a conflicting view on the relationship between a board's level of experience and a firm's performance, a theory on restrained resources considers that board members with more experience will cope better within a business environment by working well in a group which will contribute positively to a firm's performance (Wegge, Roth, Neubach, Schmidt, & Kanfer, 2008). It is argued that board members with a higher age average will have much more experience compared to a younger age average. This experience is expected to positively contribute to the better performance of a firm. However, older-age board member appears to be more aggressive and dictatorial with decisions. These characteristics of board members may result in risky decision making, which may undermine a firm's performance (Croson & Gneezy, 2009). In addition, board members with a higher age average may face more limited pressures to a changing business environment and this may hinder the implementation of more strategic decisions (Child, 1975).

Furthermore, board members with a higher average age may be subjected to fewer pressures from a changing business environment, which may impede the implementation of more strategic decisions (Child, 1975). Despite conflicting views on the relationship between a board's level of experience and a firm's performance, a theory on restrained resources contends that board members with more experience will cope better in a business environment by working well in a group, contributing positively to a firm's performance (Wegge et al., 2008).

Several important contributions to the capital structure literatures have been made by researchers. First, this study aims to integrate the expertise of top executives as directors with the number of directors in a flexible corporate governance framework that will affect the company's capital structure. (Custódio & Metzger, 2014) and (Papadakis & Barwise, 2002) calculated a CEO's experience years in his or her role by calculating the date a CEO was appointed till the years he or she spent outside the firm. This is because most CEOs transfer their previous company expertise to their present role. Experience as a managing director is related to their talents and abilities (Escribá-Esteve, Sánchez-Peinado, & Sánchez-Peinado, 2009). According to the researchers, samples from 2010 were utilized to observe stability following the 2008 global financial crisis. The three largest industries were then sampled using the mean return from the per sector index from 2010 to 2016. Based on prior research, this study aims to determine how the competence and experience of directors, as well as the number of directors, impact capital structure decision-making in a corporation. The purpose of this capital structure research is to investigate the impact of managing director experience and the number of directors on debt (Capital structure) in three major industries: agriculture, mining, and consumer goods.

Hypothesis H1e: "Board's level of experience is positively correlated with a firm's performance.

Research Methodology

Study Period and Sample Selection:

Population of the study is non-financial firms listed in Pakistan Stock Exchange (PSX). The sample size of the study is 100 firms selected through purposive sample technique from the period 2010-2019. Annual reports, balance sheet analysis and companies own site used as a source of gathering the required data of the firms.

Statistical Tools for Data Analysis

Various statistical tools has been used to pass the gathered data for statistical analysis. i.e SPSS, MS Excel etc

Data Analysis

Descriptive Statistics

Table 1 exhibits the descriptive statistics. Tobin's Q has an average value of 1.396 thus revealing that, on average market value is greater than book value of selected non- financial firms during the sampling period. It further depict that investors have positive perception regarding the firms in exploiting their capitals (Lewellen & Badrinath, 1997). The return on equity has mean value of 14.5% which reveals that on average the firms are profitable during the time horizon which could be another reason for higher Tobin Q.

The average value of BWE (Board working experience) is 14% which shows high experience and such experience board members can raise the outcome and manage the assets of the firms in efficient way.

Table 1: Descriptive statistics

Variables	Obs	MeanStd.Dev.	Min	Max
TBQ	200	1.3961.149	0.465	16.550
ROE	200	0.1451.138	-32.646	10.635
CEOD	200	0.1782.604	0.000	1.000
BWE	200	0.1490.383	0.000	1.000

Return on Equity ROE It is measured as (NI/Total Equity)

Tobin Q TBQ It is calculate as (Market value of equity+ BV (debt)/BV (Total assets)

BWE working experience of Board Members

Correlation analysis

To test the variables, a correlation analysis performed. A correlation coefficient has shown in Table 1.1 shows all variables included in the study.

Correlation was made to test all the variables. To show the relationship between two variables is expressed through Pearson correlation. In the following table all the variables are statistically moderate and significant which means that all the independent variables has no serious issue of multicollinearity as all the value of Pearson coefficient is less than .7 (Alqantan,2009).

Model Specification

The following econometric model has been used for this research

$$Y: \beta\alpha + \beta BEit + \varepsilon i \text{------------------------------(1)}$$

Here Y is dependent variable, βα is constant, β is coefficient of explanatory variable (Corporate Governance Facet i.e. Board Experience) BE it is explanatory variable and εi is error term.

This study has used financial ration (ROE) Return on Equity as measure of firm performance for the time span of 2010 to 2019.

Different statistical test were applied to check the variables and to find the most appropriate model like common effect model, fixed effect model and random effect model, and finally the conclusion has drawn on the basis of Hausman and Redundant Fixed Effects Tests (FEM) that the most appropriate model is fixed effects model which is use to run this econometric equations.

$$Y: \beta\alpha + \beta BEit + \varepsilon i \text{---}(2)$$

In the redundant Fixed Effects Test, F statistic for period is significant, which indicate that fixed effect model is more suitable than common effect model. Similarly, in Hausman test the chi-square value is also significant and hence an indication of appropriateness of fixed effect model more than random effect model. On the basis of the significance of both F statistic and chi-square value the model in our study is fixed effect model for periods. Table 2 and table 3 shows period fixed effects while table 4 shows the effects specification.

Redundant fixed effect model

Pool: BASIC

Table:2 Test period fixed effect

Test period fixed effects			
Effects Test	Statistic	d.f.	Prob.
Period F	5.922377	(7,1985)	0.0000
Period Chi-square	41.339710	7	0.0000

Table: 3 Fixed effects

Fixed Effects (Period)		
Year	Difference	Actual Constant
2010	0.055928	0.125551
2011	-0.237447	-0.167824
2012	0.737469	0.807092
2013	-0.202239	-0.132616
2014	-0.301064	-0.231441
2015	0.234956	0.304579
2016	-0.273217	-0.203594

Effects Specification

Table: 4 Effects specification

R-squared	0.060174
Adjusted R-squared	0.053545
F-statistic	9.078022
Prob(F-statistic)	0.000000
Durbin-Watson stat	2.137848

Board Working Experience and its Effect on firm performance

$$Y: \beta\alpha + \beta BE + + f \text{ (control variables) } \epsilon it\text{--}(3)$$

In the redundant Fixed Effects Test, F statistic for period is significant, which show that fixed effect model is more proper than common effect model. Similarly, in Hausman test the chi-square value is also significant and hence an indication of appropriateness of fixed effect model more than random effect model. On the basis of the significance of both F statistic and chi-square value the model in our study is fixed effect model for periods. Test period fixed effects are shown in table 5. Table 6 shows Correlated Random Effects - Hausman Test while table 7 present white period standard errors & covariance.

Redundant Fixed Effects Tests

Pool: BASIC

Table: 5 Test period fixed effects

Effects Test	Statistic	d.f.	Prob.
Period F	5.985802	(7,1985)	0.0000
Period Chi-square	41.777844	7	0.0000

Table 6. Correlated Random Effects - Hausman Test

Pool: BASIC

Test period random effects

	Chi-Sq. Statistic		
Test Summary		Chi-Sq. d.f.	Prob.
Period random	41.900616	7	0.0000

Dependent Variable FP

Table 7. White period standard errors & covariance (d.f. corrected)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.073119	0.027445	2.664215	0.0078
FP_?	1.253105	0.648379	1.932673	0.0534
FP _?*BWE_?	0.012599	0.006421	1.961917	0.0499
FP _?*BETA_?	0.219702	0.080679	2.723149	0.0065
FP _?*GOWTH_?	-0.003606	0.001873	-1.92447	0.0544
FP _?*EPER_?	-0.012938	0.004507	-2.87075	0.0041
FP _?*SIZE_?	-0.082636	0.042065	-1.95731	0.0505

Table 8. Fixed effects (Period)

Fixed Effects (Period)

Year	Difference	Actual Constant
2008	0.053671	-0.143401
2009	-0.21652	-0.143401
2010	0.73277	-0.143401
2011	-0.20714	-0.143401
2012	-0.316658	-0.143401
2013	0.251461	-0.143401
2014	-0.277178	-0.143401
2015	-0.020406	-0.143401

Effects Specification

Table 9. Effects specification

R-squared	0.064338
Adjusted R-squared	0.057739
F-statistic	9.749441
Prob(F-statistic)	0.000000
Durbin-Watson stat	2.319056

Table represents the result of Board working Experience (BWE) and Firm Performance (FP). The regression result between Board working Experience (BWE) and Firm Performance (FP) is negative and significant, and thus there exist a positive relationship in the interaction of Board working Experience (BWE) and Firm Performance (FP). So on the basis of the above result, its reject Null hypothesis and accept alternative hypothesis H4: A significant relationship exists between Board working Experience (BWE) and Firm Performance (FP). So its implies that as the percentage of working experience of board member increases, the firm performance will also increases. The result shows that increase the percentage of board working experience can better monitor all the activities of firms and avoid the firms to get higher debts which leads to better firm performance and mitigate the Effect of Default Risk. The theme of the finding shows that it's totally concentrate on Board working Experience (BWE). Likewise, table 8 and table 9 Fixed effects (Period) and Effects specification respectively.

Conclusion

This study investigated the impact of attributes of corporate governance i.e. Board Working Experience on firm performance evidence from Pakistan variables. The study targeted 100 non- financial firms listed on the Pakistan Stock Exchange covering the period from 2010 to 2019.
The result concluded that a significant relationship exists between Board working Experience (BWE) and Firm Performance (FP). So its implies that as the percentage of working experience of board member increases, the firm performance will also increases. The result shows that increase the percentage of board working experience can better monitor all the activities of firms and avoid the firms to get higher debts which leads to better firm performance and mitigate the Effect of Default Risk. The theme of the finding shows that it's totally concentrate on Board working Experience (BWE).

Recommendation and future Direction

- The current research study provides basis for the researchers to test all the tested and remaining constructs related to the corporate governance facets and Firm Performance.

- It is suggested that future researches may be conducted with large sample sizes covering and longer time frame.

- Similar studies may be conducted in settings of other emerging economies to validate results of this study.

- It is also suggested that further studies may be undertaken with additional variables of corporate governance and Firm Performance. This will further refine results of this study and contribute towards the pertinent literature.

- Comparison of emerging and developing economies may also be done considering the inter-relationship of variables used in this study to enhance overall undertaking of this relationship.

Declaration

Conflict of interest: The authors declare no conflict of interests

Authors contribution: Equal contribution of authors

Data availability: Data is available upon request from the authors

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