

The Impact of the Corporate Governance and the Ownership Structure on the Firm's Financial Performance and Its Risk Taking Behavior

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Abstract

In the developing country like Pakistan the Agency Problem may have different dimensions as it may not only be among the Ownership and the Management but also regarding the expropriation of the corporate profits by the largest shareholder at the cost of the many small shareholders. This paper examines the relationship between the Ownership Structure with its two dimensions i.e. Ownership Type and Concentration with the Corporate Governance adaptation level by the firms and its Financial Performance and Risk Taking Behavior judged by the Stock Market Returns. The analysis was conducted in three sections using Panel Data Estimation using the data from 2006 to 2010 for 40 listed KSE firms. The results indicates that the improvement in the Corporate Practices increase the firm's financial performance and reduction in the level of risk during undertaking of the riskier ventures. The Corporate Governance also has negative relationship with the Ownership Concentration proving the fact that the increase in the level of the ownership concentration results in the reduction of the level of good practices by the firms. These

results also provided a view of the Corporate Structure of the Pakistani firms and prove the fact that the Ownership Concentrated in single largest owner results in the reduction of Corporate Governance level and the Financial Performance of the firms and also results in the increase in the level of the risk undertaken by the firms.

Keywords: Corporate Governance, Ownership Structure, Market Risk, Financial Performance

JEL Classification Codes: G32, M1

1. Introduction

Within the corporate governance framework the different ownership structures plays a dominant role in the determination of the behavior of the firm regarding the financial and investments decision making. One of the key parameter in the process of that decision making is the level of risk the owners and the management of the firms are ready to take. The firms may find itself in a conflicting situations during the decision making process when the managers and the owners start seeking their own personal interests and objectives, that ultimately jeopardizing the firms profitability, its future prospects and survival. Within the contemporary corporate setup today there are different corporate governance structures through which the ownership structure is subdivides into rival systems of dispersed and concentrated ownership structure. During the last few decades there has been an intense academic debate over possible explanations for the different systems of ownership and control in key developed economies.

Corporate governance is explained as a processes and structure through which the management of corporate affairs is conducted for the purpose of enhancing business prosperity and corporate accountability and ultimately it enhances the shareholder value and intern protects the interest of individual as well as collective interest of all the stakeholders. Good corporate governance practices may have significant influence on the strategic decisions of the firms, e.g. External financing. Though the implementation of the corporate governance mechanisms has come with the agency problems initially indicated by (Berle and Means, 1932). Agency problems arise as a result of the relationships between shareholders and managers and are based on conflicts of interest among the owners and management within the firm. Similarly conflict of interests between controlling shareholders and minority shareholders is also at the heart of the corporate governance literature.

An important agency issue, however, that got a limited attention of policymakers and scholars is the role played by the firm's ownership structure in the firms overall risk-taking behavior and the performance. Shareholders having significant stakes in a company can shape the nature and the level of its decision making regarding its corporate risk-taking behavior, which affects the firm's ability to compete and eventually its survival and performance. Excessive risk-taking by firms may result in bankruptcies, causing repercussions that affect the economy as a whole. According to (Wright et al. 1996), shareholders with considerable stakes in a company can shape the nature of its corporate risk-taking behavior, which may affect a firm's overall ability to compete and ultimately its survival. The separation of ownership and control in modern corporations bring an irregularity of risk-taking and rewards between managers and shareholders. Managers may avoid risky projects to make safe their non-diversifiable human capital in firms, while owners may choose risky projects to increase the value of their equity holdings. Thus the firms held by single large shareholder may be induced in to taking more risky projects rather than the firms with more dispersed ownership. On the other hand the large shareholders may become more risk-averse as they may give more value to their private benefits obtained from more control in the firm and in order to secure them they will invest in safer projects (john et al. (2008).

A vast literature on the corporate governance makes an important division between ownership of voting rights and ownership of cash flow rights, in which the corporate ownership is measured by

cash-flow rights of the shareholders, and the corporate control is measured by their voting rights. In this study the objective is to evaluate the impact of the ownership concentration and ownership mix with respect to the level of percentage of the large share holders and the different types of the owners controlling the rights of a firm on its risk taking behavior and its financial performance. The ownership concentration is the extent to which large shareholder are in control of the shares. The proxies for that is the percentage and the number of the share held by the large share holders, the total percentage of the shares held by the other shareholders and the cash flow rights of the controlling share holders. While the different ownership types includes institutional ownership, foreign ownership, government ownership and the stakes of the parent or the associated companies within the firms.

1.1. Ownership Structure in Pakistan

With in the developing countries the agency problem is that control is often obtained through an ownership structure of complex pyramidal structures such as interlock directorship, cross shareholdings and voting pacts and/or dual class voting shares that allow the ultimate owner to maintain (voting) control while owning a small fraction of ownership (cash flow rights). In Pakistan, the firms are owned by family or state-controlled firms or firms held by corporations and by financial institutions that dominates the trade and industry settings. The agency problem is not due to the conflicts rising among the manager and shareholder but rather due to the risk of confiscation by the governing or controlling shareholder at the expense of minority shareholders. The dominant shareholder makes the decisions but does not bear full cost. When the family members holds the top executive positions in the corporation in addition to their large shareholdings that may have negative impact on the firms value, that effect is exacerbated if that family member as the CEO of the firm does not have the talent, expertise or competency to run the business.

In Pakistan ownership is concentrated; most firms are held either by families, directors and executives, foreign or institutional owners and government ownership. In this study the categorization of ownership is conducted by taking them as four separate groups of owners: top managerial ownership as CEOs, directors and executives, foreign ownership, institutional ownership and government, ownership held by public sector companies and by parent or associated companies.

1.2. Objective of the Study

This study serves two main purposes these are regarding the impact of the Corporate Governance structure on the Ownership with different level of Concentration and different Ownership types, and the impact of the Ownership Structure and the Corporate Governance on the firm's Financial Performance and its Risk Taking Behavior judged by the market returns.

2. Literature Review

Most of the corporate governance literature had studied the agency problem regarding the composition of the ownership within the firms, usually control by a large shareholder or a mixture of small shareholders. There are studies in which the focus is on the issues arising from the conflicts between the management and the corporate owners which again give rise to the agency problems. The study by (Berle and Means, 1932) had been the focus within the literature that elaborated their claim of the separation of the Corporate Ownership from the control of the firm given in the study due to which the management may take actions that may not be in alignment with the shareholder's interest. The only way is to align the interest of both the parties by allowing the shareholders with an option to nominate their directors and having control over the selection of the officers entrusted to run the enterprise (Hasan, 1983).

The level of the ownership concentration has its consequences for both the shareholders and the managers, as concentrated ownership with single large shareholder can divert the share of the small shareholders through their power over the corporate decision making (Kuznetsov and Muravyev,

2001). Also high levels of the ownership concentration can reduce the cost of capital and lowers the level of the liquidity or the opportunities through the diversification in investor's perspective that is available with the diffused ownership structure with large number of owners increasing the market liquidity and the level of monitoring through the stock market investors (Holmstrom and Tirole, 1993) (Fama and Jensen, 1983).

(Jensen and Meckling, 1976) argue that the separation of the ownership and the control add up the additional cost of the monitoring of the managers by the shareholders and the managerial activities that contradicts the value creation that causes reduction in the value of the firm, the introduction of managerial share is in the best interest of both the managers and the owners due to the alignment of the interest and reduces the agency problems. Although (Stulz, 1988) demonstrate that sufficiently high levels of managerial ownership that allows the managers to block the takeover bids, which ultimately can lower the firm value, the same results were obtained by (Hermalin and Weisbach, 1991) that increasing the shares of the managerial ownership reduces the value of the firms.

Likewise, markets for corporate control, if they function properly, are expected to serve as an incentive for managers to act in the best interest of owners (Jensen and Ruback, 1983). Baker and Wurgler (1963) presented the other side of the picture in their catering theory and argued that management should give incentives to shareholders according to their demands, this is the way to cater the investors by paying smooth dividends when investors put premium on dividend paying companies and by not paying dividends when they prefer non-paying companies. (Myers 1984) presented pecking order theory, according to which a company follows a sequence in utilization of funds for investments, primarily retained earnings are used which are less costly source of funds followed by debt and equity as the sources of funds.

A rather too much diffused ownership might create some other level of problems regarding the power exercised by the managers working in their interest rather than the value maximization of the shareholders that ends up by allowing the managers to hold some stake within the firms which also aligns the interest of the owners and the managers (Himmelberg *et al.* 1999). The financial institutions may have their role in the firms decision making as owners as equity holders and their inclusion in the supervisory board, as they are effective in providing additional debts for the firms (Chirinko *et al.* 1999).

The institutional owners are mainly well informed investors and may work as joint ownership both as equity owners and the debt providers that increases the level of the monitoring by these institutional owners and creates strong incentive mechanism for the managers to work in the best interest of the firms and value maximization (Jensen, 1989). (Gedajlovic and Shapiro, 2002) also support the view that financial institutions are well positioned to monitor the manager of the firm within their network.

(Grossman and Hart, 1982), on the other hand, point out that if ownership is widely dispersed, no individual shareholder will have the incentive to monitor managers since each will regard the potential benefit from a takeover to be too small to justify the cost of monitoring. On the other hand, (Shliefer and Vishny, 1986) suggested that large shareholders have the potential of monitoring and controlling the managerial activities. Thereby, they are responsible to contribute to corporate performance. But they can also redirect funds for their own private benefits in the form of special (hidden) dividends and privileged deals with their other businesses putting a direct cost on the interest of the stakeholders giving rise to an ambiguity in the role played by the large shareholders.

(Short, Keasey and Duxbury, 2002) examine and find a positive relationship between managerial ownership and leverage of the firms, also a negative relationship is found between the ownership held by large external equity holders and financial leverage. However, due to the presence of the large outside equity holders relationship between management ownership and leverage ratio is not significant. Their findings suggested that outside equity holders affects the agency costs of equity financing and debt financing.

(Subrahmanyam and Titman, 1999) evaluated the importance of the insider and the outsider ownership in the context of the importance of the information from the two sources. If the insider information becomes less important and advantageous for the firm than the outsiders ownership is more advantageous for the firms with the relevant information set for the purpose of the managerial decision making.

Maug (1998) examines the role of the institutional investors in accordance to the level of their shareholdings and their incentive for the monitoring, the incentives from the monitoring is related to the level of ownership as if the ownership is high than institutions can monitor the management with the share that are less marketable and with low ownership they have the option to liquidate their investment in the company with poor performance and low incentives for monitoring.

According to (Loderer and Martin, 1997), when the firms are performing well than the management of the firms are induced in holding fewer shares and ownership in the firm, as its more beneficial for the management with high performing firms. The negative relationship obtained by their study strongly supports the argument. When the ownership of the owners and the management is merged with the concentration of the ownership the performance of the firms improves. As the ownership concentration is high requiring high shareholdings with control which cannot be disputed which eliminates the problems relating to the agency costs (Agrawal and Mandelkern, 1987).

The literature suggests two differential views of the relation between corporate risk-taking and equity ownership. One is of the views that justify a positive relationship between risk-taking and ownership is associated with monitoring. Shareholders with large equity stakes in the company have incentives to monitor the manager with the purpose of maximizing the value by under taking projects that bears more risk with higher expected returns (Shleifer and Vishny 1986).

(Downs and Sommer, 1999) while examining the relationship between the managerial ownership and risk taking behavior of the firms finds a positively significant relationship between them. They are of the point of view that as the managers have their stake in the ownership of the firms the risk preferences of managers may adjust in order to align the conflicting interests of managers and owners. Also, shareholders with significant ownership stake might be reluctant to take more risk due to securing their private benefits of control as they might desire to maintain good reputation and/or to increase the control (Jensen and Meckling, 1976).

(Amihud and Lev, 1981) suggest that managers will support for conglomerate mergers to decrease their exposure to "employment risk" (i.e., risk of losing job, reputation). Managers with higher equity ownership will have higher incentives for risk-reduction, which justifies more active diversification by these managers. Shareholders face a trade-off between taking (value-enhancing) risky projects and incurring costs of forgone diversification. On the one hand large equity ownership motivate investors to be risk-takers, on the other hand they are exposed to idiosyncratic fluctuations, which makes them risk-averse.

3. Research Methodology

3.1. Data

The analysis in this study is conducted on the basis of finding the relationship among the Corporate Governance, Ownership Structure, Firm's Performance and the Firm's Risk Taking Behavior. The data for the 40 firms is obtained from the Annual Reports and the Brecorder website from 2006 to 2010. The estimation of the models is conducting the Panel Data Regression.

The corporate governance index is used which is developed by the authors in their study (Javid and Iqbal, 2007). In order to construct corporate governance index for the firms listed on KSE, a broad, multifactor corporate governance rating is done which is based on the data obtained from the annual reports of the firms submitted to SECP. The index construction is as follows: for every firm, twenty-two governance proxies or indicators are selected; these indicators are categorized into three main themes i.e. the board composition index, ownership and shareholdings index, disclosure and audit

index. By taking the average of three sub-indices the aggregate corporate governance index for each firm in the sample is obtained.

The Ownership in this study is taken with regards to the cash flow rights rather than the voting rights. The Ownership Structure is taken in two dimensions; first the ownership Concentration is measured with the proxy of the percentage shares held by the single largest shareholder and the number of shares held by the largest five shareholders. Indicating the level of shares concentrated in single and the top five shareholders second is the ownership type variables are the identity of the owners holding the percentage of shares in the firms. The owners can be categorized as the Government Ownership, Institutional Ownership, Family and foreign ownership.

The firm's performance is measured in two dimensions; first the accounting based performance measures that includes ROE (Return on Equity) and ROA (Return on Assets), while the second is the market based performance measures including the variables of Earning per Share and the average yearly Market Returns of the stock prices.

The risk taking behavior of the firms are measured by the overall Standard Deviation of the stock returns as the total risk for the last three years of the stock returns of the firms and the Beta calculated by applying the market model on the stock returns of each of the firm.

3.2. Methodology

3.2.1. Corporate Governance and Ownership Structure

The first part of the analysis is regarding the relationship between the Corporate Governance and its impact on the Ownership Structure of the firms. The Corporate Governance Index is tested with the two dimensions of the Ownership Structure; first the Ownership Concentration and second is the Ownership Type. The model is given by:

$$OStructure_{it} = \beta_0 + \beta_1 CGI_{it} + \beta_2 beta_{it} + \beta_3 Inv_{it} + \beta_4 size_{it} + \epsilon_{it}$$

The Ownership Structure has its two dimensions i.e. the Ownership Concentration (OCon_{it} in Panel A of Table 1.) and Ownership Type (OType_{it} in Panel B of Table 1). The CGI is the Corporate Governance Index, the control variables are: Beta represents the market risk calculated by the market model by the data of the current and the preceding two years Stock Returns, Inv representing the Investment opportunities calculated by the growth rate of the sales over the years and the size measured as the natural log of the total assets of the firms.

3.2.2. Corporate Governance, Ownership Structure and Firm's Performance

The second estimation is regarding the model to test the impact of the Corporate Governance and the Ownership Structure on the Firm's Performance that is measured as two accounting based i.e. the Return on Assets (ROA) and Return on Equity (ROE) and two market based measures of Earning per Share (EPS) and Stock Returns. The model is presented as:

$$Per_{it} = \beta_0 + \beta_1 CGI_{it} + \beta_2 OStructure_{it} + \beta_3 Risk_{it} + \beta_4 Inv_{it} + \beta_5 Size_{it} + \epsilon_{it}$$

Per represents the four performance measures while the OStructure represents the two Ownership Structure dimensions. The control variables are Risk, Investment opportunity and the Size as are used in the first model.

3.2.3. Corporate Governance, Ownership Structure and Firm's Risk Taking Behavior

The third model is regarding the testing of the impact of the Corporate Governance and the Ownership Structure on the Firm's Risk Taking Behavior. The Risk Taking Behavior is measured by the Betas (calculated by the market model) and the Standard Deviation (SD) calculated by the simple standard deviation of the last three years including the current year stock Returns. The model is given as:

$$risk_{it} = \beta_0 + \beta_1 CGI_{it} + \beta_2 OStructure_{it} + \beta_3 Inv_{it} + \beta_4 Size_{it} + \epsilon_{it}$$

Risk represents the Beta and the Standard Deviation of the Stock Returns. The OStructure is the two dimensions of the Ownership structure with the Inv (Investment Opportunities) and Size as the control variables.

4. Results and Discussion

4.1. Corporate Governance and Ownership Structure

The analysis regarding the impact of the Corporate Governance on the ownership Structure presented in the Table 1 reveals a significantly negative relationship between the two as the coefficient for the 1LSH (percentage of shares with Single Largest Shareholder) is negative and significant showing that the increase in the Ownership Concentration reduces the level of the good practices within the organizations as the it increases the intensity of the monitoring by the largest shareholder and with it the result is the managerial entrenchment that in turn decreases the quality of the Corporate Governance. However the results are insignificant but again negative for the 5LSH (the percentage of shares held by the five largest shareholders).

Table 1: Corporate Governance and Ownership Structure.

Panel A:	$OCon_{it} = \beta_0 + \beta_1 CGI_{it} + \beta_2 beta_{it} + \beta_3 Inv_{it} + \beta_4 size_{it} + \epsilon_{it}$						
	CGI	Risk (Beta)	Inv	Size	Intercept	R²	F-test
1LSH	-0.257 (-2.038)*	-0.179 (-1.855)**	1.9453 (1.829)***	2.897 (1.879)	5.459 (1.202)	0.689	5.301 (0.000)
5LSH	-0.095 (-0.494)	-0.023 (-0.199)	1.552 (2.966)*	3.394 (2.323)	3.516 (0.224)	0.687	5.243 (0.000)
Panel B:	$OType_{it} = \beta_0 + \beta_1 CGI_{it} + \beta_2 beta_{it} + \beta_3 Inv_{it} + \beta_4 size_{it} + \epsilon_{it}$						
Govt	3.112 (3.007)*	-1.286 (-1.814)**	1.695 (1.944)**	1.912 (2.843)*	88.27 (1.605)**	0.703	5.435 (0.000)
Inst	2.657 (2.009)*	-0.989 (-1.032)	3.897 (2.665)*	1.612 (1.943)**	25.27 (2.005)**	0.673	4.655 (0.000)
Fam	1.098 (1.097)	-0.923 (-1.332)	1.011 (1.092)	1.120 (1.843)**	72.27 (1.905)**	0.733	6.715 (0.000)
Forgn	2.390 (3.588)*	-0.897 (-0.629)	1.325 (2.276)*	2.004 (2.623)***	90.690 (1.471)*	0.659	4.623 (0.000)

Note: *, **, *** represents the significance at 0.01, 0.05 and 0.10 levels.

CGI represents the Corporate Governance Index.

Inv is the Investment Opportunity measured by the growth in sales.

1LSH represents the percentage number of shares held by single largest shareholder.

5LSH represents the percentage number of shares held by five largest shareholders.

Govt: Shares held by Government. Inst: Shares held by Institutions. Fam: Shares held by Family Owners. Forgn:

Shares held by Foreign Shareholders.

Risk (Betas calculated by using the Market Model)

The result regarding the risk indicates that as the Ownership Concentration increases the level of the firm's Risk Taking Behavior reduces evident from the significant negative coefficients, it might represent the scenario that as the concentration of the ownership is with the single largest shareholder the decision making rest on that shareholder who ultimately for his own interest might not be ready to undertake riskier investment ventures. The coefficients for the investment opportunities and the size are positive with significance for the investment opportunities, indicating that the increase in the investment opportunities is in line with the increase in the ownership concentration. As the largest single shareholder has the power and control to divert the resources towards the more suitable and likely profitable ventures with less perceived risk.

The results presented in the panel B of the Table 1 indicates that the firms belonging to the State, Institutional and foreign Ownership shows higher level of the Corporate Governance as the state

with abundance of funds and the institutions and foreign parent companies has more inclination towards the promoting of the Good Corporate Governance Practices. The risk shows negative coefficients for all the Ownership Types with significant coefficient for the State Ownership. The Investment Opportunities and the Size both shows significant and positive coefficients for all the Ownership Types. The R^2 and the F-test for all the regressions tested in the Table 1 are on the higher satisfactory side with the R^2 with in the 60 and the 70 percent levels and the F-stat being significant for all the tested models.

4.2. Corporate Governance, Ownership Structure and Firm's Performance

The results regarding the impact of the Corporate Governance and the ownership Structure are presented in the two panels of the Table 2. The first panel is showing significant coefficients of the Corporate Governance for the four performance measures i.e. for the accounting and the market based measures. The performance of the foreign owned firms is highly significant also for the firms with significant institutional ownership are also significant for all the four performance indicators.

Although the coefficients of the risk are insignificant but these are negative which indicate that the perceived level of the Risk Taking from the firms has inverse relationship with the financial performance of the firms. The coefficients of both the Investment Opportunities and the Size of the firms are significant and positive indicating the fact that the firms with more investment opportunities ultimately shows higher performance and provides superior financial results. The significant coefficients of the size of the firms indicate that larger firms with in the market achieve better performance. The results regarding the control variables are all the same for both the models presented in the two panels.

The results for the Ownership Concentration also provides significant and positive results for all the coefficients indicating that the firms with higher Ownership Concentration achieve higher performance while the coefficients for the 5LSH are negative showing an inverse relationship. The results' regarding the risk shows positive and significant coefficients for the Stock Returns indicating that an increase in the perceived Risk also increases the Market Returns.

Table 2: Ownership Structure, Corporate Governance and Firm's Performance

Panel A: $Per_{it} = \beta_0 + \beta_1 CGI_{it} + \beta_2 OType_{it} + \beta_3 Risk_{it} + \beta_4 Inv_{it} + \beta_5 Size_{it} + \epsilon_{it}$										
	CGI	Foreign Ownership	Government Ownership	Institutional Ownership	Family Ownership	Risk (Beta)	INV	Size	Intercept	R ²
ROA	0.159 (3.024)*	0.306 (2.431)*	0.408 (1.844)**	0.209 (1.895)**	0.156 (1.933)**	-1.553 (-0.988)	4.111 (2.940)*	1.165 (1.805)**	-21.12 (-2.626)*	0.697
ROE	0.559 (1.880)**	0.620 (2.006)*	1.427 (2.572)*	1.168 (3.941)*	3.727 (1.837)**	-1.714 (-1.085)	3.399 (2.416)*	1.369 (2.160)*	-22.63 (-2.663)*	0.694
EPS	0.196 (2.506)*	0.768 (2.108)*	0.005 (0.014)	0.634 (1.604)***	0.069 (0.509)	-1.549 (-0.967)	3.481 (2.340)*	1.460 (1.901)**	-21.10 (-2.636)*	0.687
SRs	0.00095 (0.927)	0.0002 (0.890)	0.002 (3.075)*	0.090 (1.645)***	0.081 (2.729)*	1.642 (2.012)*	3.463 (2.403)*	1.690 (2.293)*	-20.98 (-2.678)*	0.689
Panel B: $Per_{it} = \beta_0 + \beta_1 CGI_{it} + \beta_2 OMix_{it} + \beta_3 Risk_{it} + \beta_4 Inv_{it} + \beta_5 Size_{it} + \epsilon_{it}$										
	CGI	1LSH	5LSH	Risk (Beta)	INV	Size	Intercept	R ²		
ROA	0.258 (3.024)*	0.179 (1.955)**	-0.523 (-2.199)*	-1.6453 (-1.029)	2.171 (2.040)**	89.028 (1.873)**	-5.604 (-0.621)	0.658		
ROE	0.169 (2.480)*	3.286 (1.814)**	-0.897 (-2.629)*	-5.325 (-0.276)	2.376 (2.116)**	88.565 (1.469)*	-6.106 (-0.690)	0.664		
EPS	0.196 (2.506)*	0.020 (0.087)	-0.185 (-1.838)**	-2.828 (-0.530)	4.543 (3.840)***	91.278 (1.502)*	-5.075 (-0.628)	0.660		
SRs	0.0435 (0.622)	0.037 (1.766)***	0.014 (1.785)***	0.007 (1.982)**	3.223 (2.003)**	90.265 (1.533)*	-6.546 (-0.690)	0.671		

Note: *, **, *** represents the significance at 0.01, 0.05 and 0.10 levels.

CGI represents the Corporate Governance Index.

ROA (Return on Assets), ROE (Return on Equity), EPS (Earning per Share), SR (Stock Returns) and Risk (Betas calculated by using the Market Model)

Inv is the Investment Opportunity measured by the growth in sales.

1LSH represents the percentage number of shares held by single largest shareholder.

5LSH represents the percentage number of shares held by five largest shareholders.

Govt: Shares held by Government. Inst: Shares held by Institutions. Fam: Shares held by Family Owners. Forgn: Shares held by Foreign Shareholders.

Risk (Betas calculated by using the Market Model)

4.3. Corporate Governance, Ownership Structure and Firm's Risk Taking Behavior

The results regarding the impact of the Corporate Governance and the Ownership Structure on the firm's Risk Taking Behavior measured by the market betas and the Standard Deviation of the Stock Returns are shown in the two panels of the Table 3. The Corporate Governance showed negative and significant coefficients yet again providing the fact the improvement in the corporate practices results in the reduction of the risk level of the firms. The improvement in the Corporate affairs also provide the firms with the luxury of attaining better performance with being engaged in to extra Risk Taking activities.

The different Ownership types also provide mix results regarding its impact on the Firm's Risk Taking Behavior. Significant results are obtained for the Foreign and the State Ownership with negative coefficients. While for institutional Ownership the coefficients are positive but insignificant, for family Ownership its insignificant and negative coefficients proving the fact that the increase in the family Ownership reduces the Risk level or the Risk Taking activities of the firms.

The analysis regarding the control variables provide positive and significant results for the relationship with the Investment Opportunities which provide the fact that when the firms had new Investment Opportunities and these firms are engaged in the activities of capitalizing on these opportunities the firm also take up the extra risk associated with the Investments. Hence the increase in the firm's Investment Opportunities results in the increase in the perceived risk or the Risk Taking activities of the firms.

The results for the relationship between the Ownership Concentration and the Risk Taking Behavior provided positive and Significant coefficient for the 5LSH (the percentage of shares held by the top five shareholders) which suggest that the reduction or the diffused Ownership results in the increase in the Risk Taking Affairs of the firms. Within this model again the Investment Opportunities and the Size provided the same results as was provided by the model in the panel A.

Table 3: Ownership Structure, Corporate Governance and Firm's Risk Taking Behavior

Panel A:	$rist_{it} = \beta_0 + \beta_1 CGI_{it} + \beta_2 OType_{it} + \beta_3 Inv_{it} + \beta_4 size_{it} + \epsilon_{it}$								
	CGI	Foreign Ownership	Government Ownership	Institutional Ownership	Family Ownership	INV	Size	Intercept	R ²
Beta	-0.159 (-3.024)*	0.408 (1.244)	-0.306 (-2.431)*	0.209 (1.495)	-0.156 (-1.333)	4.111 (2.940)*	-1.165 (-0.505)	-51.34 (-0.621)	0.697
SD	-0.132 (-1.234)	1.668 (1.744)***	0.432 (2.612)*	0.137 (1.331)	-0.213 (-1.256)	3.541 (2.780)*	-0.713 (-0.405)	-71.64 (-1.321)	0.712
Panel B:	$rist_{it} = \beta_0 + \beta_1 CGI_{it} + \beta_2 OMix_{it} + \beta_3 Inv_{it} + \beta_4 size_{it} + \epsilon_{it}$								
	CGI	1LSH	5LSH	INV	Size	Intercept	R ²		
Beta	-1.139 (-1.824)**	0.408 (1.244)	0.306 (2.431)*	2.123 (2.626)*	-2.028 (-2.473)*	-16.64 (-0.331)	0.658		
SD	-0.710 (-2.014)*	0.361 (1.196)	0.128 (1.451)	1.328 (1.826)**	-1.221 (1.513)***	-21.71 (-0.291)	0.673		

Note: *, **, *** represents the significance at 0.01, 0.05 and 0.10 levels.

CGI represents the Corporate Governance Index.

Risk (Betas calculated by using the Market Model), SD (the Standard Deviation of Stock Returns of last two years).

Inv is the Investment Opportunity measured by the growth in sales.

1LSH represents the percentage number of shares held by single largest shareholder.

5LSH represents the percentage number of shares held by five largest shareholders.

Govt: Shares held by Government. Inst: Shares held by Institutions. Fam: Shares held by Family Owners. Forgn: Shares held by Foreign Shareholders.

5. Conclusion

The paper examined the relationship among the four main aspects of the firms structure and its market position i.e. the firm's adaptation of the Corporate Governance practices, its Ownership Structure, the firm's Financial Performance and the Level of its Risk Taking Behavior. The analysis was conducted on 40 firms selected from the Karachi Stock Market with data from 2006 to 2010 and in three sections first regarding the relationship between the Corporate Governance and the Firm's Ownership Structure that provided significant results regarding the impact of the Corporate Governance on the Firm's Ownership Structure, proving the fact that increase in the Ownership Concentration results in the reduction in the level of better Corporate practices.

The second set of analysis was regarding the impact of the Corporate Governance and the Ownership Structure on the firm's financial performance measured by four variables two accounting and two market based measure of the performance level. The results again provided the fact that the increase or the improvement in the Corporate Practices results in the improvement in the Financial Performance, while different ownership Styles also provided significant results for different performance measures. Also the availability of the Investment Opportunities and the increase in the Size of the firm also results in the better Financial Performance. The ownership Concentration also had an impact on the performance level. The results regarding the impact of the Corporate Governance and the Ownership Structure on the firm's Risk Taking Behavior also proved the fact that the adoption of better Corporate Practices results in the reduction of the risk level during the undertaking of the riskier ventures by the firms, while the increase in the Ownership Concentration results in the increase in the perceived Risk Taking Behavior of the firms.

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