



The Influence of Board Characteristics on Shareholders Assessment of Risk for Small and Large Firms: Evidence from Pakistan

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ABSTRACT

This unique study examines the alliance between board characteristics and shareholders assessment of risk as revealed in the volatility of stock returns for Pakistani listed companies. For this purpose, a sample of 30 manufacturing companies is used that are listed on Karachi Stock Exchange for the period of 2004-2013. The study uses panel data analysis and reports that random effect model is the best results yielding method. Our hypothesis incorporates preceding evidence that the small and large firms have spectacularly diverse constitution of boards, shimmering the firms diverse monitoring and counseling needs. It is hypothesized and locate confirmation with the intention of entrenched the large firms are able to produce affirmative net benefits, in the appearance of lesser risk, form board independence, gender diversity and director ownership. On the other hand the finding of this study showed the board size is negatively associated with the shareholder assessment of risk for large firms and the positive associated with the assessment of risk for small firms. The CEO duality is positive associated with the assessment of risk for large and negative associated amid assessment of risk for small firms. The results have insinuation for regulatory authorities, shareholders and directors to take steps to improve the board competanices for better performance.

Keywords: Board Characteristics, Shareholders Assessment of Risk, Panel Data Analysis, Karachi Stock Exchange

JEL Classifications: G32, G34, G38

1. INTRODUCTION

The corporate governance has become a contemporary matter for the reason of that its massive contribution to the better performance of the companies. Corporate governance has been a vital feature since the advancement of the corporate entities. Over time, the corporation evolved and become more advancement, refined and took more people into service. These developments required the more capital. So, the shareholder provided capital and consequently became owners of the corporation. The core matter of the corporate governance is the disjoining of ownership and organizes which create the divergence of concentration between the shareholder and managers.

Corporate governance ensures the clearness, accountability, equality, sustainable company's financial performance, build the shareholder confidence, access to all investors whether external

or foreign and the maximization of the shareholders wealth. The objective of controlling and directing the system is that providing protection to investors and other stakeholders. Even though the research show the contradictory results about the association involving the corporate governance and the shareholders assessment of risk, but in a general faith that the good corporate governance system not only to improves the value of firm but can also help out to the betterment of the capital market and economy of a country. However the countries policy may have differ to protection the investor or other stakeholder. The difference due to the business practices and the culture of the market which the firm exist. The fluctuation of the result is the outcome of different laws and adopted the corporate governance models.

The need for corporate governance arises from the potential inconsistency of interest between those who manage the whole work of firm and those who invest in the firm. Berle and Means

(1932) squabbled with the intention of the separation of ownership from control escort to discrepancy of concentration mainly between isolated administrator and shareholders. When there is asymmetric information between the share holder and the managers (who control), the managers have incentive to achieve their own objective at the expenditure of the shareholders. In a dynamic business environment the role of board of directors are tricky as they inquire about to emancipation a variety of task and errands. The boards are predictable to execute a diversity of occupation including the keep an eye on management to alleviate agency cost (Fama and Jensen, 1983; Voordeckers et al., 1996; Harris and Raviv, 2008), provide and giving right to resources (Pfeffer and Salanick, 1978; Hillman and Dalziel, 2003). The board ought to be as a team of individual who coalesce their skills and competence to contribute the executive companies governance. The escalating significance of the individual board of directors, it is imperative to recognize distinctiveness of member which is ultimate effect of the stock returns of the firm.

Almost all the exertion in the region of corporate governance preparatory with Adam Smith (1776) to diverse theories agency, resource dependence, stewardship and stakeholder ship has ornamented the significance of boards. Adam Smith (1776), in his milestone exertion, the wealth of Nations, recommended that a supervisor with no express ownership of a company would not formulate the equivalent judgment, nor work out the alike concentration as would an proprietor (landlord) of that organization. This view also supported by (Berle and Means, 1932; Jensen and Meckling, 1976) in agency theory. In accordance to this theory, when there is a separation of administration and ownership, the administrator (managers) work out for his own curiosity which is not constantly the best curiosity of owner. In this theory, the agency problem can be set in two diverse appearances which is known as moral hazard and adverse selection (Eisenhardt, 1989).

In Pakistan and most of the Arab countries, mostly firms are family owned where the families members are usually hold the important positions in the management. The controlling shareholders are mostly family owners which are involved in the management of the firm as a board members and chairman of the board. Moreover due to the family support, the appointment of the directors and management may be influenced by friendship or kinship rather than based on merit or education. So, one of the common feature is that the alliance between controlling shareholders and the management. Therefore, it does not mean that the agency cost does not exist in these firms. The agency problem that prevails is not only between the managers and outside investor but the major disagreement of interest involving the controlling shareholders and the other shareholders. In this study the agency framework is that the principal is the minority shareholder and the agent is the family ownership, who are normally worked the best interest the entire shareholder not the controlling shareholders. Therefore, it is important to focus the implications of the agency problem and board characteristics on firm stock return and accordingly corporate financial and investment decision.

This study scrutinizes an association between board characteristics and shareholders assessment of risks for small and large firms

as replicated in the volatility of stock return in Pakistan. The confirmation of the board characteristics and the shareholder assessment of risk, or lack thereof, will permit firms to make the proper abundance regarding the engagements of board to generate and get better the worth of the organization which is also affect of the returns of the particular company. To the best of my knowledge, no empirical study has been undertaken to inspect the impact of masculinity diversity on the shareholder assessment of risk for small and large firms of Pakistan listed firms. This is the first study in Pakistan that empirically scrutinizes the characteristics of board which is effect on the stock returns volatility of the firm. This study inquire about to fill these fissure. All of these conclusion are constructive to practitioners when they drawing the corporate boards.

2. REVIEW OF LITERATURE

The fundamental part of the stocks return volatility is that the design of the strategic decisions. Mintzberg et al. (1976) pass on premeditated decisions as one which is “imperative, in conditions the proceedings taken, the resources devoted, or the instance set.” These pronouncement are not the day-to-day decision, slightly they consist of intermittent decisions taken by the pinnacle administration of the organization which is undeviating comportment on firms endurance. Eisenhardt and Zbarcki (1992) put forward that the strategic decisions are the essential for firm’s future itinerary. These pronouncements are apprehensive with elemental concerns such as position, timing and funding and all this aspect will decide for a firm’s continued existence and accomplishment or collapse.

The scholars have used diverse theoretical perceptions to guesstimate the outcome of board characteristics on the performance of firm. Therefore, a widespread aspire of diverse theories has institute a linkage involving diverse board characteristics and firm performance (Kiel and Nicholson, 2005). According to Carlsson (2001) the deepest concern of the whole corporate governance codes is the import of automatic and accomplished board. In corporate governance studies the importance of boards was underscore by Monks and Minnow (1995) who pass on the corporate administration as the connection among shareholders, senior administration, leading body of executive and how the deliberate declaration have influenced for the firm performance. Monks and Minnow (2004), scrutinize, “in genuine importance, corporate governance is the constitution that is foreseen to verify that the exact inquiries get asked and that affirm and security are set up to verify that the answers imitate what is superlative for the arrangement of proceeding with, practical quality” (p. 2). The basic constituent of this structure is the board enrollment, its establishment and capacities, with an impressive hurdle on the performance of firm. On the other hand the different researchers (Mace, 1971; Norburn and Grinyer, 1974; Vance, 1983; Rosenstein, 1987; Monks and Minnow, 1995) contended that the boards made little commitment to system and the part of methodology gathering is execute essentially by CEO. A prevailing role is playing the management led by the Chief Executive, often foremost to power unevenness linking the board and management. These boards were therefore called “Creatures of the CEO” (Mace, 1971) who are obtainable for the functions of rubber stamping (Herman, 1981). Lorsch and MacIver

(1989) study consider additionally unsurprising the predominating part of administration differentiation to boards, and prescribed a guiding part to the sheets in given that direction on the appraisal of alternatives, moderately than start stratagem. The board's capacities were basically seen as far as supervision administration, survey of execution, and verify that the various traps of a firm are all things considered responsible. On assortment the members of board, Monks and Minnow (1995) put forward that the directors are designated on the origin of managements calm in working with team.

The involvement of boards in strategy has apparently increased (Stiles, 2001), the operational level has become increasingly imprecise in the distinction between strategy formulation, monitoring and implementation (Ingley and Van der Walt, 2001). In this progression, the board besides scuttle the jeopardy of delightful ended executive responsibilities (Helmer, 1996). Furthermore, there is a diminutive convincing confirmation of methodical association between the role of board's strategy and achievement of the firm (Hillman and Dalziel, 2003). In additional appreciative of association between assorted characteristics of board and achievement of the firm will make possible the suitable decisions for the board. However, this study is to endeavor in this track as it scrutinizes the association between characteristics of board and shareholder assessment of risk.

3. THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

The part of the board and its characteristics has been planned by diverse scientist of assorted disciple, for example, the organization hypothesis, law, administration methodology, mass trading and fund (Kiel and Nicholson, 2005). The current writing has primarily focusing on the boards attributes in influencing the firm performance (Fama and Jensen, 1983; Denis and McConnell, 2003). However some scholar also paid consideration to the other issue like CEO compensation and turnover (Kato, 2006; Kapopoulos and Lazaretou, 2007) in heartwarming the performance of firm. This fragment reviews of the four main theoretical perceptions of corporate mechanisms which are concern for this particular study agency theory, resources dependence theory, stewardship theory and the stake holder theory.

3.1. Integration of Different Theories

A piece of the theory confer dominance to a meticulous vision on how board should compact with the verdict of board. This counters in attendance a outline o the four theories which confer above.

As presented in Table 1, the focal point of agency theory on the contradictory issue of interest involving the principal (shareholder) and agents (management) whereas the theory of stewardship views administrator as stewards and intend alliance involving the steward and the intention of organizations. On the extra point of view, the hypothesis of stakeholders inspect the impasse over the enthusiasm of different bunches of stakeholders. Resource dependence theory emphasizes the magnitude of board as a source and ideates a task outside their conventional direct responsibilities careful on or after the perception of agency theory. In this section, present the review of literature identify different board's characteristics namely board independence (BI), board size (BS), gender diversity (GD), director ownership (DO) (and also the other control variables that should examine for their collision of the risk assessment of shareholders.

The one mechanism to assuage the agency and economic risk is the board of directors (Fama and Jensen, 1983), which the agency theory scaffold is quiet to most favorable characteristics of board for restrained the risk of shareholders. The regulators suppose that a combine of independent and executive director is most favorable. The principal responsibility of the supervisory director is to fetch the professional dexterity to the organizations. The senior managers also require the internal acquaintance to acclimatize their firm's intentional reaction to varying the condition of business, and managers of this form seize the instant to enlarge (Penrose, 1959).

The different researchers advocate that the economic juncture of enlargement of firms might be influential in explanation the varied confirmation. Their confirmation is reliable with the argument that large firms require more sovereign observe for the reason that they have multifarious formation frequently with assorted business and geographic maneuver. The independent directors must enlarge resources to attain the firm unambiguous information and acclimatize their hold professional proficiency to advantage these large established firms. The businesses acquire cost to employ, return, and synchronize and to allow the company to relocate the clear information of the independent boards. The shareholders of the outsized built firms, the focal point structure free board are expected to surpass the expense since interest for investigate to encourage insiders to make the profession in light of a legitimate concern for shareholders. The trustworthy firms additionally be slanted to have little growth alternatives, having long ago created; and to safeguard their level and fruitfulness, have allure to impact the set of associations and relations of their free executives to achieve obstinate profit and assertion making.

Table 1: Summary of four theoretical viewpoint and insinuation for boards

Theory	Responsibility of board	The board's insinuation
Agency theory	The supervisory organize	The board independents are an instrument for shareholders to maintain possession power and examine the feat of firm
Stewardship theory	Administrative accredit	The board proscribed by management is sanction and manage the communal possessions devotedly
Resource dependence theory	Co-optation	The boards with muscular outer associations are a co-optation apparatus for firms to admittance peripheral wherewithal
Stakeholder theory	Advocate the interest of all stakeholders	Maximizing the shareholder's wealth (return) is not solitary objectives; interest of every stakeholder ought to be uniformly pleased

The primary focal point of the small firms, on run of the mill, is accomplishment a practicable level (Agrawal and Knober, 1996), the preference from directing toward oneself chiefs administrations are impossible to beat the expense. As an alternative, the small firms optimal board extra appropriate narrates to in-house financial expertise and ceremonial industry be located in the executive directors. In view of that, pedestal on the exceeding opinion and using the volatility of stock returns as a proxy for the risk assessment of shareholders:

- H₁₀: The BI has no significant impact on the shareholder assessment of risk.
 H_{1A}: The BI has significant impact on the shareholder assessment of risk.
 H₂₀: The BI of large firms has no significant impact on the shareholder assessment of risk.
 H_{2A}: The BI of large firms has significant impact on the shareholder assessment of risk.
 H₃₀: The BI of small firms has no significant impact on the shareholder assessment of risk.
 H_{3A}: The BI of small firms has significant impact on the shareholder assessment of risk.

The size of board is the numbers of members on the board. The identifying appropriate size of the board affecting its ability to perform the functions effectively should be a matter of standing invitation (Jensen, 1993; Yermack, 1996; Dalton et al., 1998; Hermalin and Weisbach, 2003). Lipton and Lorsch (1992) suggested the less number of members in boards, portentous that the more members in a board face the different problems of complementry riding and community loafing. As the number of members in a board increase, the free traverse increases and trim down the competence of the board. Jensen (1993) sanctioned the small boards because of the improving the efficiency of the board to great synchronization and slighter communication troubles. Dependable by way of this perception, Yermack (1996) and Eisenberg et al. (1998) give confirmation that small boards are allied by way of high significance of the firm. The large boards keep up the grounds that it would give a gigantic monitoring and direction (Pfeffer, 1972; Adam and Mehraan, 2003; Anderson et al., 2004; Coles et al., 2008). As the number of mebers increase in board then the problems is arise such as the communication problems and conflict of interest (O'Reilly III et al., 1989).

The perception of the resource dependency, advocate that board are wanted to exploit procurement of critical associations belonging (Pfeffer, 1972; Pfefer and Salancik, 1978; Klein, 1998; Hillman and Dalziel, 2003). Klein (1998) recommended that counseling requirements of the CEO augment the degree to which the firm depend on the milieu of wherewithal. Therefore, size of the board increases association of organizations to its outside milieu and protected the serious resources. In reaction to resource dependencies and pressures of dictatorial, organizations generate the large BS to include administrator from diverse surroundings (Pfeffer, 1972; Pearce and Zahra, 1992).

From the beyond conversation, literature give the assorted result; some sustaining small boards (Yermack, 1996; Eisenberg et al.,

1998) and others sustaining the large boards (Singh and Harianto, 1989; Adam and Mehran, 2003). Only some of the crams do not endow with any shore up to the affiliation involving composition of board and performance of the firm (Hermalin and Weisbach, 1991; Bhagat and Black, 1999). Therefore, we mull over that the firms assistance in encompass more directors for monitoring stipulation of resources and also endow with the representation for diverse stakeholders in the firm.

- H₄₀: The BS has no significant impact on the shareholder assessment of risk.
 H_{4A}: The BS has significant impact on the shareholder assessment of risk.
 H₅₀: The BS of large firms has no significant impact on the shareholder assessment of risk.
 H_{5A}: The BS of large firms has significant impact on the shareholder assessment of risk.
 H₆₀: The BS of small firms has no significant impact on the shareholder assessment of risk.
 H_{6A}: The BS of small firms has significant impact on the shareholder assessment of risk.

The GD is component of the encompassing impression of board diversity (Milliken and Martins, 1996). This notion of diversity of board advocate that boards ought to replicate the composition of the society and aptly represents the gender, and specialized conditions. The boards are apprehensive with accurate symphony to endow with dissimilar point of view (Milliken and Martins, 1996). This multiplicity of the board is shore up on the argument of ethical compulsion to shareholders (Carver and Oliver, 2002), stakeholders (Keasey et al., 1997) and for commercial causes (Mattis, 2000; Daily et al., 2003).

The board's GD is also supported by different theoretical perspective. Such as, the agency theory is primarily apprehensive on the subject of BI and a steadiness involving the executive and non-executive directors on board. The depiction on or after dissimilar cluster will endow with a evenhanded board so that no personage can overlook the decision-making of the floorboard (Hampel, 1998). The diversity also give demonstration for dissimilar stakeholders of the organization for impartiality and justice (Thompson and McEwen, 1958). The board is a strategic resource from the perspective of resource dependence, which provides a association to different outside resources (Ingley and Van der Walt, 2001). The distinctive researchers think about that as a broaden in differing qualities of the board escort to better board and administration on the contention that differences permit boards to spigot on more extensive gift puddle for the executives part (Pearce and Zahra, 1992; Burke, 1997; Singh and Vinnicombe, 2004).

The empirically consequence of women directors was pore over by (Carter et al., 2003; Fields and Keys, 2003; Bonn, 2004; Farrell and Hersch, 2005). Carter et al., (2003) begin an agreed affiliation including gender differing qualities and firm execution. Bonn (2004) originate a constructive alliance between the proportion of women on directors and risk assessment of shareholders. A number of crams have inspected the consequence of women

on board committees and institute a positive produce on firms return (Bilimoria and Piderit, 1994). Therefore, the existing study by Ding and Charoenwong (2004) and Farrell and Hersch (2005) did not significant positive association involving director's women and return of the shareholders. In the light of such literature, there is an escalating magnitude of women in the communal globe, it is essential to more look at the collision of boards GD on stock returns of the firm.

- H₇₀: GD has no significant impact on the shareholder assessment of risk.
 H_{7A}: GD has significant impact on the shareholder assessment of risk.
 H₈₀: GD of large firms has no significant impact on the shareholder assessment of risk.
 H_{8A}: GD of large firms has significant impact on the shareholder assessment of risk.
 H₉₀: GD of small firms has no significant impact on the shareholder assessment of risk.
 H_{9A}: GD of small firms has significant impact on the shareholder assessment of risk.

In the literature, there is a apathetic matters of the collision of DO (Demsetz and Lehn, 1985; Shleifer and Vishny, 1997; Becht et al., 2005; Sheu and Yang, 2005). Berle and Means (1932) anticipated that the possession structure does persuade performance of organization and recommended that the separation of possession and power. While Demsetz and Lehn (1985) disprove the intentions of Barle and Means by in conflict that the ownership is indomitable endogenously and organizations inquire about the altitude of symmetry ownership. On the other dispense Morck et al. (1988) put forward that incessantly regulate possession is pricey, and as a outcome, firms comprise inferior than most favorable configuration of ownership, foremost lesser performance level. Core and Larcker (2002) endeavor to reunite the two observations correspond to by Demsetz and Lehn (1985) and Morck et al., (1988). They bicker that the time of preliminary astringent, the firms initiate with a most favorable level of administrative possession. Therefore, firms diverge and do not endlessly adjust the finest echelon to evade the re-contracting cost. In other expressions, when firm make your mind up whether to regulate to re-attain the most favorable echelon of possession configuration, then the firms contrast the marginal benefit and its cost.

The possession of the director container seize situate in two appearance: The administrative possession (Jensen and Meckling, 1976) and obstruct receptacle possession (Shivdasani, 1993). The administrative ownership is also inclined in two diverse customs: Compensation and reputation. The crucial point of this study is the shareholding of director, which is a element of inside monitoring apparatus. Chung and Pruitt (1996) locate that administrative impartiality possession is positively affect the performance of the firm. Palia and Lichtenberg, (1999) moreover scrutinize a affirmative significant association amid administrative ownership and the entire dynamic efficiency. Becht et al., (2005) put forward that the constitution of the executive recompense disparity can have a huge persuade in ordinate the interest of shareholders and management; therefore a proper plan of this

inducement can diminish the cost of agency. The overall literature indicates the conflicting views with reference to the impact of director's ownership on the firms return. It is glowing notorious with the intention of mainly firms recompense their directors throughout stock, fees, preference or amalgamation of them (Elson, 1996; Shleifer and Vishny, 1997; Bebchuk et al., 2002). Afterall the DO is a main attribute of a lot of firms and auxiliary appreciative of its consequence on firm's stock return will be valuable for practitioners and endow with constructive imminent to investigators.

- H₁₀₀: DO has no significant impact on the shareholder assessment of risk.
 H_{10A}: DO has significant impact on the shareholder assessment of risk.
 H₁₁₀: DO of large firms has no significant impact on the shareholder assessment of risk.
 H_{11A}: DO of large firms has significant impact on the shareholder assessment of risk.
 H₁₂₀: DO of small firms has no significant impact on the shareholder assessment of risk.
 H_{12A}: DO of small firms has significant impact on the shareholder assessment of risk.

A CEO duality (CD) is an important board control structure apparatus. It pertain a circumstances wherever the firm's CEO as well as chairman of the board of directors. There are two contending sight on the subject of CD pedestal on the awareness of whether a firm is preminent serve by muscular headship (stewardship theory), or by monitoring efficiently (agency theory). The main purpose of this duality is to dish up as a replacement for how much sovereignty the chairman own. A person who grasp together the position is predictable to endow with a central focal point on accomplish the objectives, and to give a muscular headship of the firm.

The experimental studies disclose a contradictory locate of results (Rechner and Dalton, 1991; Boyd, 1994; Coles and Hesterly, 2000). Rechner and Dalton (1991) originate a affirmative association involving nonexistence of CD and the returns of firm, Boyd (1994) found that the positive relation linking CD and performance of the firm. The other scholars originate so as to no considerable differentiation amid the firms with and without CD (Daily and Dalton, 1997). In actuality, Daily and Dalton (1997) put forward that severance of CEO and chair positions will end upshot in demoralize endeavor. Hence the deliberate maintains on the outlay and settlement of CD (Brickley et al., 1997; Coles and Hesterly, 2000; Heracleous, 2001), others scholars such as Fama and Jensen, (1983) and Rechner and Dalton (1991) shore up the separation both pose in perspective to amplify the self-determination of the board. Cadbury (1992) believes that the responsibility of the person wills serrate from the CEO; it these two functions are combined then it presents a substantial contemplation of supremacy inside the decision making. Further empirical legalization of this view of separation of both positions would give the more transparency in this matter.

- H₁₃₀: CD has no significant impact on the shareholder assessment of risk.

- H_{13A}: CD has significant impact on the shareholder assessment of risk.
- H₁₄₀: CD of large firms has no significant impact on the shareholder assessment of risk.
- H_{14A}: CD of large firms has significant impact on the shareholder assessment of risk.
- H₁₅₀: CD of small firms has no significant impact on the shareholder assessment of risk.
- H_{15A}: CD of small firms has significant impact on the shareholder assessment of risk.

4. METHODOLOGY

The sample consists of the manufacturing firms listed on Karachi Stock Exchange as on January 2004. We have elected the sample from publicly listed firms for the reason that of the market capitalization and the top enterprises in Pakistan. These organizations are likely to seize incomparable looming to charge and give work to accomplish and learned people on the governing body, furthermore to gain a pay-off from such decently built and prudent boards. We have collect data on these 30 manufacturing firms for a 10 years' time period, from 2004 to 2013. We have assembled information just for the years after the fact that the firm was recorded in the stock exchange. The main data comes from the KSE data deep archive and Central Bank of Pakistan annual balance sheet analysis. This has the entire annual reports of the listed firms. The board characteristics data comes from these annual reports, collected the data on the stock returns from the ZHV securities research database.

4.1. Model and Method

The General form of the model as follows:

$$\sigma = f(\text{BA, BI, BS, CD, DO, DP, FM, FS, GD, LV, RE})$$

The model can be econometrically stated, as follows:

$$\text{SRV} = \alpha_0 + \alpha_1 \text{BA}_{it} + \alpha_2 \text{BI}_{it} + \alpha_3 \text{BS}_{it} + \alpha_4 \text{CD}_{it} + \alpha_5 \text{DO}_{it} + \alpha_6 \text{DP}_{it} + \alpha_7 \text{FM}_{it} + \alpha_8 \text{FS}_{it} + \alpha_9 \text{GD}_{it} + \alpha_{10} \text{LV}_{it} + \alpha_{11} \text{RE}_{it} + \varepsilon_{it}$$

This study used the panel data. The panel data estimations are well thought-out to be the most recent and proficient diagnostic method in managing the econometric data. Panel data analysis has become popular among social scientists because it allows the insertion of data for N cross section (e.g., countryside, households, organizations, individuals) and T time periods (years, quarters, months, etc). The pooled panel information format set consist of a times grouping for each cross-sectional parts in the set of information, and offers a differences of estimations systems. In this case, the number of observations available increases by including enlargement over time.

4.2. Variable Measurement

The dependent variable stock return volatility (SRV) is measured as the standard deviation of the daily stock prices return. SRV is occupy as a apprehend measure reflecting the shareholders assessment of risk, in response to the boards characteristics and actions of the board of directors as the firms ultimately decision-

making power. Similar, Guaye (1999) utilize SRV as a measure of the risk to scrutinize the allusion of equity recompense for administrative risk-taking. The independence of board is precise as the proportion of the board that comprises of the independent administrator. A board composed of neither members who are nor executive of neither a company, nor shareholders or in law of the family. An independent board is generally tranquil of members who have no ties to the firm in any way, therefore there is no chance of having a divergence of interest because the independent directors have no substance interest in a company. Dalton et al. (1998) affirm that independent directors are important because inside or dependent directors may have no knowledge or access to external information and resources that have the benefit of the firms independent or outsider directors (e.g., formal government official, CEOs of other firms, social worker or public figures, foremost purveyor). The size of board is an induction of together counseling and monitoring role (e.g., Hermalin and Weisbach, 1988; Klein, 1998; Adam and Mehran, 2003; Coles et al., 2008). The size of board is also institute to enlarge with the size of the firm and age of firm (Coles et al., 2008). To scrutinize its consequence, various studies measure the size of the board by the total number of directors of a firm (e.g., Yermack, 1996; Bhagt and Black, 2002; Adam and Mehran, 2003; Bonn, 2004; Coles et al., 2008). Therefore we have used the number of members in the board as a measure of BS.

The agency theories such as (Berle and Means, 1932), Jensen and Meckling (1976) and Eisenhardt (1989) squabble with the intention of the seperation of ownership and control to the reduce of agency problems amd develop the value of the firms or shareholders wealth. However. Some other researchers (e.g., Brickley et al., 1988; Davis et al., 1997; Shleifer and Vishny, 1997; Becht et al., 2005) have recommended the alliance of interest between the owners of the firm and the firm managers through administrative possession. In this study, the DO refers to proportion of shareholding owned by the directors along with the total firms shares outstanding in a year. DO includes both the executive and the non-executive directors as suitable variable for examining alliance of interest between owners and the managers. According to Bhagat and Black (1999), all the literature on DO and the corporate value has well thought-out the percentage of director holding as the appropriate measure of DO. On the other hand, the boards were unruffled only male members. The GD by way of presence of women in the board leads to greater board diversity. In general the board diversity is mull over to develop the organizational value and performance as it endow with the new insight ides and perspectives (Fondas and Sassalos, 2000; Carter et al., 2003; Letendre, 2004; Huse and Solberg, 2006) and provides for representations of different stakeholders for justness and evenhandedness (Keasey et al., 1997). Therefore, we have measure GD by a simple count of female board members.

The additional variables are incorporated in the scrutiny to incarcerate the effect of economic distinctiveness of the firm that the previous literature advocates also for the determinants of the shareholders assessment of risk of the firms. The literature endow with vigorous evidence that the the equity risk is linked with the operating risk and the financial risk characteristics of the

firm including the the earning variability (Beaver et al., 1970), operating leverage (LV) (Lee and Park, 2014), earning persistence (Beavr et al., 1970) anf financial LV and spread (Hamada, 1971; (Mandelker and Rhee, 1984). Therefore we have included the control variables to return on equity (RE), and log of assets Ln (Asset). Financial risk is proxies by dividend payout (DP), LV. The control variables are engaged in the pooled estimations for other corporate governance characteristics: Big5 auditor (BA) that controls for the risk associated with lower auditor quality and frequency of meeting (FS).

5. RESULTS AND DISCUSSION

5.1. Descriptive Statistics

The results have been classified into tables. Table 2 reports the descriptive statistics of our main variable; Table 3 presents the different panel data results which we obtain through process.

The analysis of this Table 2 concludes that the mean value of BI is 48.91% which is a good sign because of that the average board is independent. The average value of the BS is 8.7801 which means that the approximately nine directors in a particular board. The average share of DO is 9.8390% which is better for the value creation and risk assessment of the company. The average number

of frequency of board meeting in a year is 6.19. This average number of board meeting in a year is betterment for the company because of the discussion of different issues and resolve all of them. The Mean value of stock returns volatility is observed as 0.0425 showing the average figure of returns volatility for all the selected firms.

In Table 3 presents the result of the random effect model for all, large and small firms. The F statistics is 10.3026, 5.200, 4.3837 and P value is also significant which tells us the fitness of the model. The value of coefficient determination R² is 25.47%, 31.99%, and 29.87%. It shows that all independent variables caused (25.47%, 31.99%, 29.87%) variation in the SRV. However there are no other factors which are influencing the dependent variable because our C is statistically insignificant.

The random effect model concludes that BA, BI, DP, FS and RE are significant with the P values of 0.0003, 0.0107, 0.0260, 0.0079, and 0.0499 respectively. Along with that BS, CD, DO, FM, GD and LV is insignificant with the P value is 0.3676, 0.3766, 0.2582, 0.5311, 0.6181, and 0.9633. The relationship between BA and SRV is negative which means that firms with these BA exist which in turns leads towards the low volatility of stock returns. Whereas the BI was found to be inversely related with stock returns volatility implying that more independence in board will likely to reduce the volatility of stock returns. The relationship between size of the firm and SRV is positive. It shows that firms with large size will show the highly level of volatility in stock returns and vice versa. The relationship of the RE was found to be inversely related with the stock rerun volatility implying that the more return give to the shareholders will likely to reduce the volatility of stock return.

On the other hand, the random effect model for large firms concludes that BI,BS, CD, DO, and DP is significant with the P values of 0.0147,0.0205, 0.0581, 0.0182, and 0.02 respectively. Whereas the BI was found to be inversely related with stock returns volatility implying that more independence in board will likely to reduce the volatility of stock returns for large firms.

Table 2: Descriptive statistics

Variable	Mean	Maximum	Minimum	Standard deviation
Board independence	0.4891	0.8571	0.0000	0.2072
Board size	8.7801	18.0000	6.0000	2.8843
Director ownership	9.8390	77.9800	0.0000	15.8828
Dividend payout	0.2070	0.9214	0.0000	0.2191
Frequency of meeting	6.1900	30.0000	2.0000	3.2137
Firm size	17.7959	24.4193	13.1337	3.0773
Gender diversity	0.1102	0.5000	0.0000	0.1558
Leverage	2.4874	10.9211	-3.4346	2.6439
Return on equity	0.1953	1.7601	-0.7725	0.3294
Stock returns volatility	0.0425	0.3154	0.0987	0.0353

Table 3: Random effect model

Variable	For all firms		For large firms		For small firms	
	Coefficient	Standard error	Coefficient	Standard error	Coefficient	Standard error
C	0.0161	0.0234	0.0754	0.0588	0.0108	0.03
BA	-0.0292**	0.0079	-0.0158	0.0132	-0.0125	0.0109
BI	-0.0266**	0.0103	-0.0466**	0.0188	0.0165	0.0105
BS	0.0010	0.0011	-0.002**	0.0016	0.0016	0.0015
CD	0.0087	0.0099	0.0261**	0.0142	-0.0126**	0.012
DO	-0.0002	0.0002	-0.0005**	0.0002	0.0006	0.0005
DP	-0.0126**	0.0112	-0.0659**	0.0288	-0.0009	0.0082
FM	-0.0005	0.0008	-0.0018	0.0014	0.0001	0.0014
FS	0.0028**	0.001	0.0047*	0.0026	-0.0005	0.0015
GD	0.0086	0.0173	-0.0164	0.0356	0.0386**	0.0154
LV	0.0000	0.0008	0.0013	0.0016	-0.0007	0.0008
RE	-0.0058**	0.0056	0.0077	0.0088	-0.0079	0.0067
R ²	0.2547		0.3199		0.2987	
Adjusted R ²	0.234		0.2447		0.2079	
F-statistics	10.3026		5.200		4.3837	
P (F-statistics)	0.0000		0.0000		0.0219	

*P<0.10, **P<0.05 and ***P<0.01. BA: Big5 auditor, BI: Board independence, BS: Board size, CD: CEO duality, DO: Director ownership, DP: Dividend payout, FM: Frequency of meeting, FS: Firm size, GD: Gender diversity, LV: Leverage, RE: Return on equity

The relationship between CD and SRV is positive. It shows that firms with more CD will show the highly level of volatility in stock returns for large firms and vice versa. The relationship of the DO was found to be inversely related with the SRV implying that the more own the share of director will likely to reduce the volatility of stock returns for large firms. The affiliation between the DP and stock returns volatility is negative which means that the firms with pay the high dividend will generate the value of the firms which in turns leads towards the lower volatility for large firms.

The Random effect model for small firms concludes that CD and GD are significant with the P values of 0.0295 and 0.0128 respectively. Along with that BA, BI, BS, DO, DP, FM, and RE is insignificant with the P value is 0.2556, 0.1176, 0.2952, 0.2134, 0.9126, 0.9410, and 0.2440. The relationship between CD and SRV is positive. It shows that firms with more CD will show the highly level of volatility in stock returns for small firms and vice versa. The relationship of the GD was found to be positively related with the stock returns volatility implying that the more women directors in aboard will probable affected the high volatility of stock returns for small firms.

This study scrutinize the influence the characteristics of board on the shareholders assessment of risk for all, large and small firms. We have demeanor my investigation on a sample of firms listed on the Karachi Stock Exchange. To understand the collision of each of the board variables. We have assorted board interconnected theories, agency theory, resource depended theory. Stewardship theory and stakeholder theory. We have squabbled with the intention of various characteristics such as size of the board, GD and CD will enlarge the volatility of stock returns. On the other perspective, we undergo that the board independent and DO will trim down the volatility of stock returns.

The pragmatic scrutiny endow with the assorted outcomes. We have originate that the BS is statistically positive significant with the volatility of returns. This pronouncement is unswerving with many other crams that scrutinize the effect of size of the board on stock returns (Klein, 1998; Adam and Mehan, 2003; Anderson et al., 2004; Coles et al., 2008). The BS is to extend mull over the self-government of the board and eliminate the administrative impact (Singh and Harianto, 1989; Zahra and Perce II, 1989). The DO was instituted to be negatively interrelated to the returns volatility which is oppose the proposition that it would assistance the organizations by ally the curiosity of both shareholders and the management. It entails that there is a problem of agency of administrative annexation. The escalating the size of board is capable to covenant with the predicament of agency by configuration of curiosity of shareholders and managements which is affect on the volatility of stock returns. This verdict also endow with shore up for the perspective of the stewardship theory.

The CD was initiate to be positively correlate with the volatility of stock returns. This is divergent to our anticipation that the duality of CEO will escort to the organization problems, consequential in the poor value of the firm and also high volatility of stock returns. This finding affords shore up to

stewardship point of view that amalgamated formation of board provides effectual headship to the organization (Donaldson and Davies, 1991; Finkelstein and D'Aveni, 1994; Davis et al., 1997). Therefore, this result is dependable either the conclusion of Rechner and Dalton (1991) and Kiel and Nicholson (2005). It may perhaps also replicate the power that the individual holding twofold positions to swing the members of board according to his curiosity. The CEO retention the position of chair may perhaps brandish extensive persuade in assortment of directors of his abundance, therefore negotiation the board's role. In such a circumstances, still if the majority of the members of the board are non-executives directors, their responsibility would develop into theoretical and the functions of the board as a rubberize squash under the entirety power of the CEO (Rechner and Dalton, 1991).

The solitary rationale for this incongruous finding might be the inimitable Pakistani milieu, where the size of the board is inclined to be small. In a small board, the duality of CEO might be moderately constructive as it endow with muscular headship and bearing. Therefore, as anticipated. A outsized board dampens the consequence of CD. This is unswerving with existing literature, which initiate with the intention of CD to be negatively allied with the returns and value of the firm in outsized boards (Strickland et al., 1996; Kiel and Nicholson, 2003). The pronouncement from this study also shore up Boyed (1994) winding up, which affirms that the matters of CD might be deputation on the size of the company and confront. So, there is significance in extrication the role of board chair and CEO as the firm and size of the board enlarges.

In the midst of admiration to the GD, I initiate shore up to the scrutiny that GD escort to greater volatility of stock returns. This is unswerving amid the pronouncement of other studies that scrutinize the role of women on boards (Carter et al., 2003; Bonn, 2004; Smith et al., 2006). The numerous crams point out with the intention of board members of women throw to quality of decision making by questioning the conformist astuteness and maddening animated the discussion of boards (Fondas and Sasalos, 2000; Letendre, 2004; Huse and Solbrg, 2006). This judgment affords confirmations to resource dependence and stakeholder perceptions that multiplicity is advantageous to firms. Perchance the women directors' canister fetches their point of view extra efficiently in a undersized board, thus making the efficient involvement, slightly than in a outsized board. It materialize with the intention of larger boards, the women's are embarrassed or made unproductive by means of members of further gender. They may perhaps not be constant have relative depiction as institute by Kang et al. (2007) of the Australian boards. The judgment entails to facilitate women members ought to not be treated as gesture of depiction to GD but as a basis of priceless contribution to the boards, and ought to be symbolizing in fraction to BS.

6. CONCLUSION

This paper scrutinize whether the characteristic of board encompass deviation in the BI, BS, GD, DO and CD along with

the companies juncture of enlargement, coalesce to persuade the shareholders assessment of risk. This study covers the period of 2004-2013. The authoritarian rules and recommendations on the characteristics of board are pedestal on the postulation that one size fits all. Therefore, this postulation is confront by accessible literature (Linck et al., 2008), and this study append more evidence that is incompatible amid this one size fit all loom to the characteristics of board in governance. The regulatory guiding principle also presume that the lack of independence in board, the ownership of director, CD and consequently potentially risky for shareholders. This study also portray on the agency scaffold and differences in the enlargement of the firms to develop and substantiation that confront these postulation.

We have envisaged and locate the shareholders assessment of risk as proxies by the volatility of stock returns, is lesser for outsized firms whose boards are more independent. For the cluster of small companies, we locate the shareholders assessment of risk is not allied in the midst of the BI. The size of the board is positively allied with the unpredictability of stock return for large and small group of companies. whereas the DO, the volatility of stock returns is lesser for all and large firms but this volatility of risk is not allied in the midst of DO for small firms. With respect to the GD this volatility of stock return is not allied for all and small firms but for large firms this volatility of stock returns is allied with the GD. The CD firms amid with small group of companies and boards give the impression form duality of CEO although the large group of companies does not. We have wrap up that these distinction involving the large and small group of companies replicate distinction in the monitoring and recommend needs of more and less conventional companies, unswerving in the midst of (Linck et al., 2008).

This study endow with numerous new imminent to the corporate governance literature. The results confirm earlier confirmation with the intention of the shareholders assessment of risk amid the firms governance configuration. For example, the structure on crams of characteristics of board by Ashbaugh-Skaife and La (2004) in U.S. surroundings. Faleye and Krishan (2010) cram the board of financial institutional. In fact that we locate with the intention of the characteristics of board allied amid the volatility of stock returns. Therefore, the study designates the decisive magnitude of the formation of pinnacle management group for the valuable assessment of risk.

This study offers future research opportunities in a number of ways. First, it is paying attention barely on a certain set of characteristics of board for the impact on the firm's SRV. Whereas the characteristics enclosed are important, there are other multiplicity variables such as specialized educational qualifications, director's age and customs with the intention of might be considered. Second, the depiction of women was institute to constructive in small boards contrast to the large group of companies. It emerge with the intention of as the BS enlarge, the dynamics of the board are varying ensuing the harm of the organization. the future research ought to mull over the women's role on boards and dynamics of their attendance, which oblige an observational and qualitative study.

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