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Impact of Shareholders Engagement on Corporate Governance in Pakistan

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ABSTRACT

This theoretical study argues that the shareholders engagement plays an important role to meet the responsibility of corporate governance and act as an integral part of company's strategy. The study concluded that shareholders should act as active and meaningful participant to improve the governance and accounting measures of the corporation. Goodijk (2010) investigated how stakeholder's management increases the performance of the corporation. Management mobilized the ability of responsibility of all stakeholders related to the corporation. On the basis of practices in Netherlands, the stakeholders' model helpful for management and stakeholders who want to become active partner in corporation for dynamic and changing process of dialogue. The study reached at the result that to build up the stakeholder's involvement properly, the corporation can try to achieve balance between all interests.

Introduction

Corporate governance is defined as the rules and regulation by which the management run the Organization (Cadbury, 2000). The objectives of the corporate governance have been conceptualized by the agency theory (Williamson, 1975; Jensen & Meckling, 1976) as the maximization of profits for shareholders (Friedman, 1970). The root cause of latest governance crises are profit maximization and the share price performance (Zandstra, 2002; Currall & Epstein, 2003). Corporate governance refers to autonomous philosophy such as the division of power and supporting discussion (Gomez and Korine, 2005). Political view has been taken up by stakeholder theory (Freeman, 1984; Donaldson & Preston, 1995; Letza et al., 2004) oppose to stakeholders seriously for the continued existence of the organization and to the rules and regulations that helps them to govern the corporation.

Corporate governance act as a different and broader concept in which corporate decision making involve that away from the board of directors (Letza et al., 2004; Sison, 2008). The idea of corporate responsibility gives by the stakeholder engagement. It is clear that if an organization shows dedication through policy and loyalty through practice, then stakeholder involvement responsibly increases and the organization become accountable and responsible towards these stakeholders. This concept helps the organizations to build up their rules and regulations for the purpose of corporate responsibility and responsible organizations. (BSR, 2006). Stakeholder engagement is defined as practices that organization use for the purpose of stakeholder's involvement in a positive manner to fulfill the demands of organizational activities.

Literature Review

Mr. Filatotchev & Mr. Dotsenko (2013) investigated the organizational output of shareholders activism in UK. For this purpose the data was collected by the Factiva database to provide the comprehensive information on the corporate events as well as by the registered list of shareholders proposals from 1998-2008. This sampling provides the information of 270 shareholders activism events targeting 217 firms. The event study methodology was used to check the impact of the specific event on the firm's value. The study concluded that the current structural changes in the UK capital market lead to transformation and develop the shareholder activism among all types of the active investor from last 10 years. Mr. Ingley, Mucller & Cocks (2010) examined the different forces that influenced the strategies for shareholders engagement in corporate governance. The data was collected by the 1st non-government survey on corporate governance in New Zealand. The on-line survey has been conducted with the facilitation of several large organizations through their database. The survey was circulated among the shareholders, executive and directors of different organizations. 1800 responses received from the respondents in 2007. The study concluded that in New Zealand, corporate governance is an engaging topic with SME as well as large businesses and investors.

Mr. Adegbite, Amacshi & Amao (2011) analyzed that how unhealthy politics and wild lobbing established by the shareholders activism as a corporate governance tool which reflects the country's brand of politics. The data was collected after 2 months of field work in outstanding corporate governance professionals in Nigerian society. 112 key contributors to the corporate governance debate alternating from the academia, through practice to the regulators in Nigeria were identified and communicated via e-mails, telephones calls and in person drawing the research agenda. The study concluded that the macro (political) environment influenced the shareholder activism in the market of Nigeria. Mr. Greenwood (2007) investigated that the stakeholder's engagement is necessary for the responsible practice within the corporate governance. Engagement of stakeholders and stakeholder agency or corporate governance was used as variables. A model is proposed that reflects the versatile relation between the two constructs. The study conclude that the relationship occur between stakeholders and the corporate responsibility. To support its argument, it used the reality of the corporate governance that the organizations engage its stakeholders in order to further corporate objectives.

Mr. Logsdon & Mr. Buren (2009) examined the dialogue process for the purpose of corporation, shareholders engagement. The study contributed both theoretically and empirically towards shareholders activism and the corporation governance. The data was collected from the Interfaith Centre on corporate responsibility during the period of 1999-2005. The study concluded that the dialogue helped towards corporate governance due to which the shareholders can communicate and fulfill their reasonable demands from the management for the benefit of the corporation. Mr. Young, Mr. Tsai, & Mr. Hsu (2007) investigated the relationship between the board of controlling shareholders and financial restatements. The data collected from financial reports of the listed companies from the period 1996-2004 and obtained 222 firms that have announced restatements of the financial reporting. The ownership structure data was collected from the Companies prospectuses and Taiwan economic journal database. Regression model was used to investigate the relationship between them. The study concluded that there is a positive relationship between excess board of controlling shareholders and financial restatements and the shareholders excess control motivate firms to adopt aggressive accounting policies.

Mr. Elst (2004) analyzed the relationship between owner structure of the corporate organizations and the attendance of the shareholders in the annual general meetings. The study helped by the data on shareholder's attendance and voting manners in listed companies during the period of 1994-2003. The data was collected by the Belgium financial newspapers "l, Echo & De Tijd" during the month of March & July 2003, both were regularly published the attendance of shareholders in annual general meetings of listed companies. To check the relationship of them non- transformer regression model was used and the study concluded that small shareholders have a opportunity to discuss their opinions with the top management but the decision making authority remain with controlling shareholders and board of directors of the corporation. Mr. Dubach & Mr. Machado (2013) examined the most important key factors for the peace and stability of corporation in order to human rights strategies.

Hypothesis

H_1: Shareholders engagement as executive directors influenced the corporate governance.

H_2: Shareholders engagement influenced the corporate governance to protect their rights.

H_3: There is an impact of shareholders participation in management on corporate governance.

H_4: Shareholders engagement in AGM has effect the corporate governance.

H_5: Shareholders affects the corporate governance after engaging in BOD meetings.

H_6: Shareholders engagements have significant relationship with corporate governance.

Research Methodology

SPSS software has been used for data analysis and run the Kolomogrov Simirnov Test for measuring the normality of variables. Pearson Correlation and Linear regression equation techniques were implemented to measure the significance and direction of the relationship between shareholder engagement and corporation governance.

Significance and contribution of study

The aim of study is to explain the influence of shareholders engagement on the corporate governance. The outcomes of study are helpful for the investors, policy makers, shareholders and the people who want to invest in any stock. The individual investor can take help from the findings of this study and can come to know which type of shareholders engagement affected the corporate governance. This study covers the knowledge gap of the previous studies.

Sample

The study aims to investigate the effect of shareholder engagement in the corporate governance. How shareholder influenced the corporate governance due to their responsibilities and rights. In this study the primary data was used and collected through questionnaire. Sample size of 150 respondents is including shareholder of top public companies in Pakistan, broker in LSE, ISE, students of finance and bank managers who want to invest in some stock.

Source of the Data

Questionnaire consists of two sections 1st for demographic variable and 2nd of question related to shareholders engagement. Questionnaire consists of 20 questions. Sample size in the study included 100 male and 50 female, in which 85 respondents were married and 65 were single. Out of 150 respondents, 80 belong to the age group (40-50) and remaining belongs to the age less than 40 years. Educational level of 25 respondents is MBA, 15 from M.Com, while remaining has belonged to different investor.

Table 1: Reliability of Data

#	Engagement of shareholder as	Cronbach Alpha
1	Executive Director	0.575
2	Protect their rights	0.686
3	Management	0.764
4	AGM	0.727
5	Meeting of BOD	0.638

Validity and reliability of data is determined by Cronbach alpha. The result of table 1 showed that the cronbach alpha of all variables is greater than 0.5 i.e., executive director 0.575, protect their rights 0.686, management 0.764, AGM 0.727 and meeting of BOD.

The results of hypothesis testing:

The results of table 2 showed that shareholder engagement as Executive director and to protect their rights has extremely high positive and significant relationship with corporate governance at 0.01 level with points 0.481 & 0.356 respectively, whereas in management (0.203) and in AGM (0.107) good positive significant relation at 0.05 level and I meeting of BOD with 0.079 has positive relation. It’s mean that all variables have positive and significant relationship with the corporate governance.

Table 2: Pearson Correlation

#	Shareholder engagement	Corporation governance
1	As Executive Director	.481**
2	To Protect their rights	.356**
3	In Management	.203*
4	In AGM	.107*
5	In Meeting of BOD	.079

** Correlation is significant at the 0.01 level
*Correlation is significant at 0.05 levels

Linear Regression Model

For the analysis of data in the study we used SPSS 16 version and measure the relationship of shareholder engagement and corporate governance in Pakistan. The impact of shareholder engagement on corporate governance is calculated through linear regression model. In the equation corporate governance takes as dependent variable and denoted by Y and shareholder engagement take as independent denoted by X. Following is the linear regression equation.

$$Y = \alpha + \beta \text{ (as executive director)} + \beta \text{ (to protect their rights)} + \beta \text{ (in management)} + \beta \text{ (in AGM)} + \beta \text{ (in meeting of BOD)}$$

Table 3

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.852[a]	.725	.708	.32800
a. Predictors: (Constant), Executive Director, Board of Director, Annual general meeting, participation in Management, Protection of their rights				

The results of 3rd Table show that 72.5% change in the dependent variable is due to independent variable. The variation in the corporate governance72.5% is predicted due to shareholder engagement (executive director, protect to their rights, management, AGM and meeting of BOD). 27.5% change in the dependent variable is due to other variables which are not included the study. It is close to 1 so we can say that model is valid for prediction. The model is fit for the prediction of the corporate governance.

Table 4

ANOVA[b]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	13.035	6	2.172	20.193	.000[a]
	Residual	10.005	93	.108		
	Total	23.040	99			
a. Predictors: (Constant), Executive Director, Board of Director, Annual general meeting, participation in Management, Protection of their rights						
b. Dependent Variable: CG						

The table 4th of analysis of variance it shows that model is fit because the P-value is less than α. it means that all independent variables have impact on dependent variable.

Table 5

Coefficients[a]						
Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**T**	**Sig.**
		B	**Std. Error**	**Beta**		
1	**(Constant)**	.150	.206		.726	.470
	Protection for their rights	.189	.409	.329	3. 854	.000
	Participation in Management	.060	.027	.162	2.245	.027
	Annual general meeting (AGM)	-.060	.074	-.059	-.809	.420
	Participation in BoD meeting	-.054	.032	-.118	-1.697	.093
	As Executive Director	.148	.033	.335	4.434	.000
a. Dependent Variable: Corporate Governance						

Findings of table 5 show that all independent variables play significant role in the corporate governance. On the basis of given data the engagement of shareholders as executive director, to protect their rights and participation in management have more influenced the corporate governance and has positive relation. The results showed that the engagement of shareholders in AGM and in BOD meetings has no effect on corporate governance because P-value greater than α. So, 4^{th} & 5^{th} hypothesis are rejected and participation of shareholders as executive directors, for protection of their rights and in management has impact on corporate governance because their P-value less than α value so 1st, 2nd & 3rd hypothesis are accepted.

Findings

The result of the Pearson correlation showed that there is a positive and significant relationship between shareholders engagement and corporate governance. Shareholders engagement as executive director, in management and for their rights has more affected the corporate governance as compared to participation of shareholders in AGM as well as in BOD meeting. The finding of this study showed that there is a significant relation and impact of shareholders engagement as executive director, in management, and for the protection of their rights and there is a significant relation of shareholders engagement in AGM as well as in BOD meetings but having no impact on corporate governance. The finding of the study showed that hypothesis 1st, 2nd, 3rd and 6th are accepted.

Summary and Conclusion

The study aimed to investigate the impact of shareholders engagement in corporate governance. The study concluded that the shareholders engagement as executive directors, in management and raise voice for the protection of their rights have a direct impact on the corporate governance and participation of shareholders inAGM as well as in BOD meetings has no effect on corporate governance according to given data. It has been observed that Pakistani people mostly don't give their own opinion; they neither utilize the available resources nor the all information. The rigidity of believes found in Pakistan's people, they make their own opinion following other's.

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