Exploring the Relationship between Institutional Shareholders' Heterogeneity and Firm-Level Governance Practices: Evidence from Pakistan's Non-Financial Industries

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Abstract

Institutional investors should not be treated as homogeneous group of investors. One of the contributions of the study to the existing literature on ownership structure is the empirical verification of the role played by different institutional shareholders in Pakistan. The study considers estimation of panel data model on a total sample of 247 non-financial firms over a period of ten years i.e. from 2006 to 2015. Empirical evidence from diversified industries that include textile, sugar and allied, food and personal care-products, chemical, cement, auto, power generation and distribution, and miscellaneous confirm that only NIT play a significant and positive role in enhancing firm-level governance mechanisms. The findings from this study assist the regulators and the policy makers in redesigning the provisions of code of corporate governance that can ensure better governance at corporate level in Pakistan.

Keywords: Corporate Governance, Institutional Ownership, Code of Corporate Governance, Family Ownership

Introduction

The growth of formal economy depends on compliance of firms with the standards of corporate governance (Javid and Iqbal, 2010; Hafeez, 2015). Economies with more objective corporate governance structures could bring changes in improving investment climate and economic growth. There is overwhelming evidence that nations with reliable corporate governance systems have developed debt and equity markets that contribute to a certain extent favorably to economic growth. Global policy makers have gradually come to believe that there is a strong association between corporate governance and economic development, and for developing countries this relationship is of critical importance. A number of studies report that prior to judicial and legal reforms, firms should work on establishing provisions to safeguard the interests of

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investors. However, the task of reforming and improving investor protection laws and the quality of judiciary is lengthy, complicated and requires the support of specific interest groups and politicians, therefore, a feasible target is to improve governance mechanisms at firm-level (Klapper and Love, 2004). In the discussion on the role of shareholders in corporate governance, US Sarbanes-Oxley Act and UK Code on Corporate Governance emphasized institutional investors' role in execution and enforcement of good corporate governance standards. Developed markets seem to have transferred this role to powerful institutions that include insurance companies, mutual funds, and pension funds as they hold a bigger chunk of ownership (Hashim and Devi, 2007). According to Cadbury Report (1992), given the weight of institutional investors' votes, it is of fundamental importance the way these institutions influence corporate governance standards by exercising their authority. In Pakistan, family and group-controlled businesses dominate the corporate sector. Owners in these firms exercise control either directly through shares or indirectly through associated companies. Minority shareholders are unable to check or control the private benefit seeking activities of family owners (Javid and Iqbal, 2008; Abdullah, Shah and Khan, 2012). Problems that can make family businesses most difficult to operate include conflict over money, internal strife over the succession of power from one generation to the other and nepotism that can lead to poor management (ICAP, 2015). To resolve the inherent issues in family owned businesses, empirical studies and regulatory authorities recommend the representation of different classes on shareholders particularly institutional shareholders on corporate boards. Pakistan's financial sector and specifically our banking industry have the capability, potential and the structure to stimulate faster economic growth. The share of banking industry is around 88 percent in total financial sector and the remaining 12 percent constitute non-bank financial institutions that include insurance companies, modaraba, leasing companies, venture capital companies, house finance companies and mutual funds. In case of emerging and developing economies where capital markets are not well developed, lending by banks form bulk of financial sector lending. Financial systems in emerging and developing economies particularly those of Pakistan, China and India were able to insulate themselves during the Asian Crisis and Global Financial Crisis. This shows that financial sector of our country is stable and exhibit increased resilience to shocks (State Bank of Pakistan, SBP Research Bulletin, 2011). Considering the importance of institutional investors as dominant players for financial markets in Pakistan, it would be interesting to explore their role as corporate shareholders. The present study attempts to investigate the unexplored question of whether different institutional investors can be a shaft of hope in the gloomy

corporate environment of Pakistan. The study uses a broad corporate governance dataset for a total sample of 247 non-financial firms over a panel of 10 years i.e. from year 2006 to year 2015. A multivariate statistical technique i.e. factor analysis is applied to create a single index variable that represents governance mechanisms at firm-level. The findings provide a useful insight to policy makers and regulators on the imperfections of the code of corporate governance 2002 by highlighting the weaknesses and inconsistencies in implementation of sound corporate governance practices for non-financial firms in Pakistan. The findings from this study will also facilitate the policy makers and the regulators in determining the group of institutional investors that can play a role in improving firm-level governance practices and thus contributing towards the economic prosperity of Pakistan.

Literature Review

Extensive studies from the developed markets have documented the relationship between institutional ownership and corporate governance. Academic literature emphasizes the significance of corporate governance role that institutions as corporate owners can play in supervising management. Empirical research provides mix evidence on the institutional investors' role in improving corporate governance practices. A large amount of research advocates a positive role of institutional shareholders in corporate governance (Alfariah, Alanezi and Almujamed, 2012; Darmadi and Sodikin, 2013). The rationale is due to high monitoring costs, institutional investors being large shareholders can help in enhancing firm performance and corporate governance mechanisms. Institutional shareholders have substantial influence on corporate board and can be used to align interests of managers with other stakeholders. Another line of research suggests that institutional shareholders have a passive role in corporate governance. These studies claim a negative or no impact of institutional investors on corporate governance mechanisms (Sarkar and Sarkar, 2000; Charfeddine and Elmarzougui, 2010). They believe that institutional shareholders are not capable of monitoring management efficiently as they not only lack necessary professional expertise but can also be easily puzzled by the free-rider problem. Research studies have identified institutional investors as a fundamental component of corporate governance. The potential of institutional investors' to exercise considerable influence on firms has noticeable implications for corporate governance, particularly in terms of corporate governance standards and issues related with implementation. However, the ability to influence corporate governance mechanisms is likely to be affected by the size of ownership (Gillan and Starks, 2003) and the type of institutional shareholders (Cornett, Marcus, Saunders and Tehranian, 2007; Ferreira and Matos, 2008; Elyasiani and

Jia, 2010). The concentration of institutional shareholdings plays a pivotal role in shaping the pattern of management-shareholder relationship and in promoting good corporate governance practices. Research on institutional investors' heterogeneity has attained momentum in the current governance literature. Theory suggests and empirical findings verify that these investors are not a homogeneous group. There exists extensive heterogeneity among institutional investors with regard to their policies and objectives, investment and risk orientation, stakeholders, and desire and ability of voting and engagement (Hafeez, 2015). In Pakistan, institutional investors are assumed to be a homogeneous group that possesses similar behaviors and objectives. Empirical research has proven that institutional shareholders are instrumental agents towards improving corporate governance practices. However, indigenous studies have produced similar findings on the role played by institutional investors in improving corporate governance mechanisms as they analyzed the aggregate impact of institutional ownership (Abdullah, Shah and Khan, 2012; Afgan, Gugler and Kunst, 2016; Javaid and Javid, 2017). Based on the above arguments, the following hypothesis can be formulated:

H_1: Institutional ownership is positively associated with firm- level corporate governance

The present study has divided firm-level governance mechanisms in three indices. Each of the three (3) indices are further defined by five factors. The detail discussion on the composition of the three indices is given below:

Sub-Index 1: Board of Directors

The study has defined the first sub-index i.e. Board of Directors by using five variables i.e. board size, CEO duality, board independence, board meetings and existence of the position of CFO. The importance and relevance of these variables is evident from a number of studies. Research studies have placed more emphasis on the mechanisms related with board characteristics to define firm-level governance. In most of the cases, the key determinants of corporate board are its size, independence and duality (Weir, Laing and McKnight, 2002; Cornett et al. 2007; Haat et al. 2008; Yang and Wang, 2008; Kota and Tomar, 2010; Bruno and Claessens, 2010). Empirical studies have either used limited number of factors related with board characteristics as a proxy for measuring corporate governance or have incorporated extensive dataset. Brown and Caylor (2006), Bruno and Claessens (2010), Aggarwal et al. (2011), Chung n Zhang (2011) and Von Koch et al. (2013) used comprehensive dataset to define the governance attributes related with corporate boards. However, dataset for all these studies is taken from Institutional

Shareholder Services (ISS). In Pakistan, these factors cannot be included as part of corporate governance index due to non-availability of data in annual reports of our listed companies. Considering the limitation related with the non-availability of data in Pakistan, it is imperative that the significance of board characteristics taken as a proxy of firm-level governance index in this study should also be evident from the code of CG 2002. The code has defined the roles and the responsibilities of CEO and chairman (Clause 9). In Pakistan, it is also mandatory upon the listed companies to determine whether the offices of chairman and CEO are held by same individual or separate individuals. The code also encourages the representation of independent non-executive directors on corporate boards, including those that represent minority interests. Clause1(b) of the code encourages the inclusion of at least one independent director as board of directors representing the equity interests of institutional investors i.e. insurance company, mutual fund, investment bank, modaraba company, or development financial institutions. Another important dimension of board operations are board meetings. According to Clause (11) of the code, the meeting of directors on corporate boards should be held at least once in every quarter of the financial year. The last factor taken as a measure of index is the existence of the position of CFO. Code of CG 2002 has also identified the guidelines regarding the qualification of CFO (clause 15-16) and the number of meetings attended by CFO (clause 18). The detail of the variables and their measurement is given in Table 1:

Table 1: Sub-Index 1: Board Of Directors

Sub-Index 1: Board Of Directors	Measurement	Reference from the code of CG 2002
Board Size	Number of directors on the board	--------
CEO/Chairman Duality	One if the CEO is separate from chair of the Board, and zero otherwise	Clause 9
Board Independence	Proportion of non-executive directors on the board	Clause 1
Board Meetings	Number Of Board Meetings	Clause 11
Existence Of The Position Of CFO	One if the company has a CFO, and zero otherwise	Clause 15-Clause16

Sub-Index 2: Ownership and Shareholdings

The empirical analysis of ownership structure as a measure of governance mechanisms at firm-level depends on the shareholding pattern of annual reports of the firms and the compliance of ownership

mechanisms with the information given in the code. The ownership structure vary considerably across different countries, therefore, the selection of variables is also affected by the differences that exists in the ownership pattern and other structural characteristics. Empirical studies from the developed markets defined ownership structure by using different indicators based on shareholder rights, bylaw and charter provisions or antitakeover measures. Most of the studies from the developed markets focused on shareholder rights or anti-takeover provisions (such as hostile bidders, voting, poison pills, pension parachutes, silver parachutes, option grants etc) as part of corporate governance index (Aggarwal et al. 2011; Von Koch et al. 2013). It is also evident that these studies relied on the governance categories already defined by ISS (or IRRC) to construct their firm-level governance index. In Pakistan, the definition of ownership is based on cash flow rights rather than on voting rights (Javid and Iqbal, 2008; Shah et al. 2012). Therefore, the provisions related with shareholder rights and/or anti-takeover cannot be added as part of the sub-index. The other limitation is related with the code. It is important that the selection of the variables should be in compliance with the governance structures recommended in the code. However, the code of corporate governance 2002 does not provide sufficient information on the ownership structure of listed companies in Pakistan. Keeping in view all these limitations and based on the information available in the shareholding pattern of the annual reports of non-financial firms in Pakistan, the present study has divided the sub-index in 5 factors i.e. CEO ownership, insider ownership, CEO/chairman is a block-holder, family ownership and staff benefits other than wages and salaries. CEO ownership, CEO/chairman is a block-holder and family ownership is measured by using dummy variables 0 and 1. Insider ownership is calculated by taking the percentage of shares owned by company insiders and natural logarithm is used to measure staff benefits other than wages and salaries. The detail of the variables and their measurement is given in Table 2:

Table 2: Sub-Index 2: Ownership and Shareholdings

Sub-Index 2: Ownership And Shareholdings	Measurement
CEO Ownership	One if the CEO owns shares in the company, and zero otherwise
Insider Ownership	Percentage of company's shares owned by insiders
Chairman Or CEO Is Block Holder	One if the CEO or chairman is a blockholder, and zero otherwise
Family Ownership	One if the company has family ownership, and

	zero otherwise
Staff Benefits Other Than Wages & Salaries	Natural logarithm of all the benefits given to the staff other than wages and salaries

Sub-Index 3: Transparency, Disclosures and Auditing

The last sub-index is defined by using five (5) factors i.e. auditor's remuneration, disclosure of full biographies of board members, disclosure of internal audit committee, non-executive directors on the audit committee and size of an audit committee. Studies from the developed markets have drawn attention to disclosures, transparency and composition of audit committee as key determinants of governance mechanisms at firm-level. However, in measuring corporate governance, focus is more on the provisions related with audit. A number of the studies (Kota and Tomar, 2010; Bruno and Claessens, 2010; Chung and Zhang, 2011; Aggarwal et al. 2011; Von Koch et al. 2013) highlighted the function of audit committee in controlling and monitoring the corporate governance activities related with disclosure process, financial reporting, internal control, internal and external audit and regulatory compliance. Most of the studies included the ISS defined attributes related with audit to create firm-level governance index (Aggarwal et al. 2011; Chung and Zhang, 2011; Von Koch et al. 2013). In addition to previous research studies, the significance and the relevance of attributes selected to define the last sub-index in this study is also evident from the code. Code of corporate governance 2002 highlights the importance of an audit committee, its size and representation of non-executive directors as members of audit committee. It provides specification on the overall composition of an audit committee. According to clause 30, the audit committee shall not have less than three members together with the chairman. The code also encourages the representation of non-executive directors as members of audit committee. It also presents the guidelines on the reporting procedure such as the circulation of minutes of the audit committee meetings to all the members (clause 34); frequency of audit committee meetings (clause 31) and attendance of members at meetings (clause 32). However, these factors cannot be included as part of the index due to non-availability of data in the annual reports of listed companies in Pakistan.

Table 3: Sub-Index 3: Transparency, Disclosures and Auditing

Sub-Index 3: Transparency, Disclosures and Auditing	Measurement	Reference from the code of CG 2002
Auditor's Remuneration	The amount of remuneration paid by the company to	----------

	auditors	
Disclosure of Full Biographies Of board members	One if the company disclose full biographies of its board members, and zero otherwise	----------
Disclosure Of Internal Audit committee	One if the company has an audit committee, and zero otherwise	Clause 35
Non-Executive Directors On The Audit committee	Proportion of non-executive directors on the audit committee	Clause 30
Size of audit committee	Total number of members in the audit committee	Clause 30

A composite index based on the governance attributes specified for each of the three sub-indices is constructed. This index has a total of fifteen (15) factors representing firm-level corporate governance.

Using Factor Analysis to Construct Firm-Level Governance Index

To mitigate measurement error and to provide a parsimonious structure for analysis, the present study has employed factor analysis to construct firm-level governance index; in contrast with the common practice of assigning weights to the factors on the basis of subjective judgments (Shaheen and Nishat, 2004; Javid and Iqbal, 2007, 2008). In Pakistan, to the best of my knowledge, this is the first study to apply a multivariate statistical technique i.e. factor analysis to create a single index variable that represents governance mechanisms at firm-level by using an optimally weighted linear combination of the items called as factor scores. A single index score that represents firm-level governance index is generated by applying One-Factor Solution factor analysis. The purpose of applying One-Factor Solution factor analysis is to construct a single variable that represents corporate governance index (CGI) which is then used as a regress and in model to test the formulated hypothesis.

Methodology

Sample Selection

From the total population of 434 firms, a final sample of 247 firms is drawn. A total of eight (8) non-financial industries are included as part of the sample. The study includes firms from the non-financial sectors of Pakistan for the year 2006 to 2015. Finding long panels for firms is a problem in Pakistan because for many firms data before 2006 is not available. Therefore, for all the industries, the whole available sample having data on all the required variables is selected. Data on the required

variables is extracted from the annual reports of the firms. Table 4 provides detail of the industry population and the selected sample.

Table 4: Industry breakdown of sample firms

Sector (Non-Financial)	Total Number Of Firms	Number Of Sample Firms
Textile	180	77
Chemical	29	24
Sugar and Allied	34	22
Auto	21	17
Cement	20	16
Food and Personal Care-Products	19	14
Power Generation and Distribution	17	12
Miscellaneous	114	65
Total	434 (population)	247 (sample)

Model Specification and the Variables

The statistical model for the formulated hypothesis is given below:

$$CGI = \alpha + \beta_1(\text{insurance})_{ij} + \beta_2(\text{NIT})_{ij} + \beta_3(\text{banks})_{ij} + \beta_4(\text{MFs n modaraba})_{ij} + \beta_5(\text{firm size})_{ij} + \beta_6(\text{firm age})_{ij} + \beta_7(\text{leverage})_{ij} + \beta_8(\text{industry dummies})_{ij} + \beta_9(\text{global financial crisis})_{ij} + €$$

CGI is an index developed on the basis of various firm-level governance variables by using factor analysis. Institutional ownership describes the percentages of shares owned by insurance companies, NIT, banks and mutual funds and modaraba companies. In addition, firm size, firm age, leverage, industry dummies, and dummy variables for measuring the global financial crisis of 2007-2009 are included as control variables.

Data Analysis and Discussion

Panel data regression is employed to test the impact of different groups of institutional investors on firm-level corporate governance. Multicollinearity is checked by using two indicators i.e. correlation matrix and Variance Inflation Factor (VIF). Heteroscedasticity is addressed by using robust standard errors. The residuals are homoskedastic if null hypothesis is not rejected.

Heterogeneity in Panel Data Models

The heterogeneity across the panel units is tested by applying the Breusch and Pagan Lagrange Multiplier test for random effects. The null hypothesis in Lagrange Multiplier test is that variance across the entities

is zero. If null hypothesis is rejected it means that random effects are in fact present. However, if the null hypothesis is not rejected then pooled OLS is applied, suggesting that there are no significant differences across the panel units. The findings of Lagrange Multiplier tests in model estimation favors the random effects model over the pooled OLS. Hausman tests is then applied to decide between fixed effects model or random effects model.

Descriptive Statistics and Correlation of Variables

Descriptive statistics for all the variables used in the study are presented below in Table 5. Insurance companies own least amount of shares i.e.23.88%. The highest percentage of shares is owned by banks, followed by NIT and mutual funds and modaraba companies. The maximum value for CGI is 4.3097. Natural logarithm of total assets is used as a measure of firm size. The maximum value for firm size is 11.6170. The average age of the firms is between 27 years to 30 years as the mean value for firm age is 1.4572. The mean value for leverage is 57.10%.

Table 5: Descriptive Statistics

Variable	Mean	Standard Deviation	Min	Max
CGI	-8.57e-10	0.9375	-2.1006	4.3097
Insurance	1.7259	2.5876	0	23.88
NIT	3.5743	5.3423	0	38.61
Banks	4.1726	6.3669	0	96.26
MnM	1.4457	2.9843	0	27.53
Firm Size	9.6050	0.6479	7.5732	11.6170
Firm Age	1.4572	0.2616	0	2.1847
Leverage	0.5710	0.2033	0.1088	0.8680

In addition, results of the correlation matrix presented in Table 6 indicate a positive correlation of CGI with all the categories of institutional investors. The findings further confirm that the problem of multicollinearity does not exist among the variables.

Table 6: Correlation Matrix

	CGI	Insurance	NIT	Banks	MnM	Firm Size	Firm Age	Leverage
CGI	1							
Insurance	0.1968*	1						
NIT	0.0618*	0.2369*	1					
Banks	0.1887*	0.3359*	0.1660*	1				
MnM	0.3273*	0.3138*	0.0550*	0.2536*	1			
Firm Size	0.4393*	0.1167*	-0.0812*	0.1621*	0.3394*	1		
Firm Age	0.0989*	0.1602*	0.3053*	0.0341	-0.0819*	-0.0087*	1	

Leverage	-0.2260*	-0.0962*	0.0406	0.0365	-0.1387*	-0.0533*	-0.1444*	1

**Correlation is significant at the 0.05 level*

Discussion on Regression Results

The empirical analysis of the impact of different institutional investors on firm-level governance mechanisms is given below:

Table 7: Regression Model

	CGI	
Breusch-Pagan / Cook-Weisberg test for heteroskedasticity (H_0:constant variance)		Robust Std.Err.
Hausman Test (p-value)		Pooled OLS (<0.05)
Insurance	0.0079	(0.0054)
NIT	0.0175	(0.0028)*
Banks	0.0009	(0.0025)
MnM	0.0005	(0.0047)
Firm Size	0.6345	(0.0264)*
Firm Age	0.1483	(0.0629)**
Leverage	-0.0798	(0.0275)*
FOOD	-0.4840	(0.0893)*
SUGAR	-0.6649	(0.0674)*
TEXTILE	-1.1160	(0.0532)*
CEMENT	-0.6080	(0.0745)*
POWER	-0.0177	(0.0917)
AUTO	-0.1246	(0.0646)***
MISC	0.0933	(0.0572)
Global Financial Crisis	-0.1013	(0.0325)*
Constant	-4.1699	(0.5810)*
R^2		0.5827
F Statistics		161.54
p-value (F Statistics)		(0.0000)

CGI represents corporate governance index. Insurance, NIT, banks, MnM represents ownership by insurance companies, National Investment Trust Limited, banks, and mutual funds and modaraba respectively. Firm Size stands for the size of a firm and it is measured by taking the log of total assets. Firm Age is measured by taking the log of (current year – year in which the firm was established). Leverage is measured by dividing total debt by total assets. Chemical industry denoted by CHEMICAL, Food and Personal Care-Products

denoted by FOOD, Sugar and Allied industry denoted by SUGAR, textile industry denoted by TEXTILE, cement industry by CEMENT, auto industry denoted by AUTO, Power Generation and Distribution denoted by POWER and Miscellaneous industries by MISC. The dummy variable for Global Financial Crisis takes the value 1 for year 2007, 2008, 2009 and 0 otherwise.

( ) standard error in parenthesis
**p<0.01; **p<0.05; ***p<0.1*
Heteroskedasticity is controlled through the use of 'robust' standard errors option. For Hausman test, the null hypothesis is that the preferred model is random effects vs. the alternative pooled OLS

The findings for corporate governance confirm the hypothesis for NIT only. A significant role is played by NIT in promoting best corporate governance practices. Mutual funds and pension funds prefer long term investments on behalf of their beneficiaries. As long term investments contribute towards market stability, therefore, these investors can play a proficient role in the economic growth of the country. Institutional investors being an influential force can demand the implementation of the standards set out in the code of corporate governance. Several empirical studies suggest that the presence of mutual funds is correlated with improved operating performance and value-enhancing corporate governance mechanisms (Cornett et al. 2007; Ferreira and Matos, 2008; Elyasiani and Jia, 2010). The findings for control variables show that size of a firm has a positive and significant effect on corporate governance. A positive relation between size of a firm and corporate governance support the results of Da Silveira et al. (2007), Giroud and Mueller (2010), Ahmed Sheikh, Wang, and Khan (2013). A number of studies in Pakistan (Javed and Iqbal, 2007; Iqbal and Kakakhel, 2016) have used firm size as one of the dimensions for measuring corporate governance. Their findings suggest that larger firms have better governance. The argument is large firm can perform their operations at a lower cost thus have the benefit of the economies of scale. For that reason, in comparison to smaller firms it is less costly and easier for larger firms to invest in governance. The findings for financial leverage confirm a negative relationship with corporate governance. A negative relation between leverage and corporate governance is congruent with the results of Yasser (2011) and Ahmed Sheikh, Wang, and Khan (2013). Their findings suggest that agency problems may lead firms to make use of higher than appropriate amount of debt, which in turn increases the creditors' influence that might restrict the ability of managers to effectively administer the corporate activities that is critical for a firm to succeed and thrive. The coefficient of firm age is also positive and significant. A positive association supports the findings of Che and Langli (2015) and Rajput (2015). Older firms can enjoy better performance in comparison to new comers as they can gain economies of

scale based on learning and thus can overcome the liabilities of newness. The findings further show that global financial crisis has negatively affected the corporate governance mechanisms in Pakistan. The global financial crisis caused liquidity problems and deleveraging of financial institutions particularly in Europe and United States. Shahzad et al. (2015) investigated the relationship between financial leverage and corporate performance. Their findings confirm a negative impact of financial crisis on performance of firms from textile sector of Pakistan from period 1999 to 2012. However, in Pakistan, the empirical evidence on the impact of global financial crisis on corporate governance mechanisms and/or firm performance is very limited, so we believe that the present study attempts to provide an in depth exploration of this issue. Given our results for industry dummies, the significant and negative coefficient of CGI verify that firms in food and personal care-products industry, sugar and allied industry, textile industry, cement industry and auto industry seem to underperform as compared to firms in chemical industry (the excluded variable taken as a reference category in the regression model).

Conclusion

The findings confirm that only NIT plays a significant and positive role in improving firm-level governance mechanism across diversified non-financial industries of Pakistan. In Pakistan, family members hold substantial amount of equity shares. Ownership structure that is dominated by family or group-owned firms demands protection rules for minority shareholders. Regulatory bodies in Pakistan should set up a task force to ensure protection of minority shareholders. In our country, like the rest of the world, institutional investors have now assumed the role of largest minority shareholders. The country's largest mutual fund, NIT, has shareholdings in many listed companies and sits on approximately 200 corporate boards, therefore, many market experts believe that class action of minority investors can be led by mutual funds as it is not possible for small shareholders to be in agreement with any one person that walks into the boardroom to represent them. The former managing director of NIT, Tariq Iqbal Khan, contends that it would be against corporate democracy to keep mutual funds out of the board. The findings have important policy implications. The average percentage of shares held by institutional investors across different industries is less than the required minority percentage. According to Section 164 of Companies Ordinance 1984, investors that hold 10 percent of corporate shareholdings can furnish draft or propose resolution to the company. The same percentage of shareholdings is required to seek a declaration from a court of law pertaining to the invalidation of proceedings of a general meeting. The three sub-indices in the study are chosen in

compliance with the provisions of the code of corporate governance 2002. The identification of the weaknesses and deficiencies in the code as firm-level corporate governance indicators highlights the key areas of concern for the practitioners and policy makers. For instance; the code fails to provide sufficient detail on the ownership structure of listed companies (see the detail given in Sub-Index 2: Ownership and Shareholdings). There are no rules on the exercise of ownership rights of institutional investors. Institutional shareholders are reluctant to vote at annual general meeting (AGM). The code does not have any clause on the use of voting rights. Besides that the law on voting policy for institutional investors is silent. A key instrument for making your voice heard by the corporate board and management is the exercise of voting rights by the shareholders. It is important to mention here that in April 2012, the revised code was issued by SECP. Many practitioners believe that some of the issues that are addressed in the revised code still show lack of dynamism. For example, the code 2002 encouraged the representation of independent directors on corporate boards; however, code 2012 has made this representation mandatory. Can the presence of single independent director on corporate board make a difference in a corporate structure where majority of the shareholding and the control lies within a family? The present study has addressed in detail the foremost governance issues of non-financial firms in Pakistan. Therefore, it is imperative that the professional bodies, regulatory authorities and governance experts should underscore the best business practices that are in interest of all the stakeholders.

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