

IMPACT OF MANAGERIAL OWNERSHIP ON FINANCIAL PERFORMANCE OF THE FIRM

By

Muhammad Adnan

19572

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ABSTRACT

Purpose-This study investigates understanding the determinants of managerial ownership and the link between ownership and performance. The basic purpose of the research study was to analyze determinants which are affecting the performance of an organization along with that evaluating the profitability of the firm with various factors such as compensation, top management, service director, firm size and sales on the firm's profitability.

Methodology/sample-Sampling techniques used in the dissertations are distinct because these are selected on the basis of convenience for the researchers. In this research study, the companies were selected which were available conveniently that are operating in the industry for more than seven years. The factor of convenience was involved in the techniques of sampling because many of the companies do not allow anyone outside the company to use their data.

Findings-Annual reports of the companies were evaluated in order to analyze and retrieve the appropriate findings. It is concluded that firm Size, top management per firm and serving directors have no significant relationship with firm's profitability. On the other hand sale has significant relationship with firm's profitability.

Practical Implications-From results, it is very clear that trades are very important as far as their relation with productivity of a firm is concerned. So, a company should increase their number of trades to prosper. This is a necessary step because without it the chances of better performance in future prospects are considerably less.

Limitations: The major limitation faced in this research where the time constraints. The time allocated for each activity was not enough that's why the time limit was increased for each activity. The second limitation was the data viability and also the availability.

Keywords: compensation, top management, firm size, sales and firm's profitability

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CHAPTER 1

INTRODUCTION

1.1 Problem Background

To manage their employees as according to their abilities and evaluating the elements of presentation is the most significant and challenging task for an administration in an association. Negative impression is built in the industry when many of the companies are unsuccessful to manage their work and presentations. Productivity level may also deteriorate with the weak enactment of an association. The principle of the investigation is involved in the problem statement and this exploration is concentrating on the work as well as enactment of the organization owners.

To evaluate the contributing factors that are affecting the enactment of an association along with that valuing the viability of the firm with various aspects such as reimbursement, top management, service director, firm size and sales on the firm's productivity was the basic determination of the investigation study. This investigation study deals with the top level administration such as holders and service executives and their effect of enactment on the association. The problematic statement for this investigation study is stated as;

“To study the influence of the aggregate of administrative ownership on the enactment of the firm”

1.2 Research Context & Aim

Demsetz and Lehn (1985) conferred that in the past the clashes between managers and shareholders have been observed that disturbs the enactments of the firms. The purpose of this research is to recognize that, whether the financial performance of the company get effected if the manager and owner are the same or different. In the particular environment of the firm, administrative ownership and performance are extremely determined by both the aspects with the third parties. To classify the influence of administrative ownership on the presentation of the firm is the purpose of this study. Different features of administrative ownership were observed in previous researches on the base of major agent model and with the participation Demsetz and Lehn (1985) of variables for example astringent atmosphere. Small changes should be made within the association because the static things in an association are not thought to be the element for the stable presentation. By having sensible supervision in an association which comprises discrete features for example maximization of small and long term efficacy, changes in the ownership are not deliberated to most active elements or motivations which can make changes in the presentation (Himmelberg et al., 1999). The developments in the presentations are established on the mutual benefits of the managers and shareholders. Many of the investigation studies are failed to estimate the connection among the administrative ownership and their presentation in an association because they are subjected to variable estimators (Demsetz and Lehn, 1985).

Evaluation of the elements of the administrative ownership and their presentations on the administrations is the elementary emphasis of this analysis. So for this intention several goals are estimated based on the purpose of the investigation. The elements which can affect the presentations of the employees at the professional level in an association are revealed by this investigation. Employees are the most leading element for the formation and accomplishment of an association, which has a major impression on the enactment of the firm. The administrative level which can positively or negatively affect the presentation of the company should be studied or compared. With all the features listed before this investigation will offer clear idea about the facts that what effects will occur on the productivity of firms based on the ownership of the top organization.

1.3 Research Hypotheses

For the purpose of estimating the entire conclusions of the particular investigation study there are numbers of assumptions that are involved in the investigation study. Having an accurate result which can be instigated in additional studies is the basic objective of presenting the assumptions. Some of the important connections of the variables that are independent and dependent and develop their effect on each other are demonstrated by these assumptions. Following are the hypotheses that are to be estimated in this absconding with the deliberation of the suitable connection of dependent and independent variables which are firm size, sales, top management per firm, serving directors, reparation, top administrative ownership and firm's productivity.

Hypothesis 1: Firm Size has important relationship with firm's productivity.

Hypothesis 2: Sales has important relationship with firm's productivity.

Hypothesis 3: Best administration per firm has important relationship with firm's productivity.

Hypothesis 4: Top management ownership has important relationship with firm's productivity.

Hypothesis 5: Serving administrators has important connection with firm's productivity.

Hypothesis 6: Compensation has important relationship with firm's profitability.

1.4 Thesis Time Horizon & Scale

This study is divided into necessary sections, discussing about different elements of the research in hand. The primary focus is on the literature review and the research conducted. The first part of the report covers the introduction of the research subject followed by the literature review, which mainly focuses on the academics and research

papers written by the academic scholars. This is primarily done to gain the knowledge about the Managerial ownership and the relating aspects and gather secondary data about the research subject. The research for the literature review took most of the time approx. a month to analysis each and every article theoretically.

The Second half is based on the Research conducted for generating primary data for the sources identified later in the paper. Below mentioned are key step in conducting the research. The table shows the time scale taken for the execution of the tasks.

| Research Steps | Time Taken |
|---|-------------------|
| a. Sampling Technique | 2 day |
| b. Designing Sample Size | 2 day |
| c. Data Collection | 1 week |
| d. Information generation from data collected | 1 week |
| e. Use of Statistical tool | 1 week |
| f. Incorporation in the Research model | 4 days |

The data collection took most of time because it required generating primary data from the sample selected. After gathering the data, the most vital element is proper extraction of information from it. The proper presentation of the information and building an eloquent structure is the key to presenting the data in a convenient and comprehensive manner. Due to this reason, giving a statistical and theoretical representation of the data took almost a week.

The purpose of Research was to evaluate the elements of administrative owners on the enactment of the firms was the elementary purpose. To study the valuable aspects that is effecting the overall administration of the firm in relation to the Owners. This study will provide inarticulate review of various managerial ownership methods and their effects on the overall performance of a company. Thus, the incorporation of the data in this research model took 4 days primarily to support the purpose of the research.

1.5 Limitation of the Study

The major limitation faced in this research were the time constraints. The time allocated for each activity was not enough that's why the time limit was increased for each activity. The second limitation was the data viability and also the availability. The annual reports that were selected gave little and few information that's why those companies were selected for which data was readily available and also viable.

1.6 Ethical Consideration

Ethics is considered as the most important part of research. Social sciences research is revolving around human beings and human nature is impossible to measure as it keep on changing dramatically. Whatever is liked by a human today may be changed tomorrow. Hence, the nature of human keeps on changing and research results are also developed while keeping in view the changing nature of human beings. That is why, the result of 100 human beings may be different from one another but the results of 100 computers will always be the same. The most important aspects of ethics taken seriously under study are not to mention the information, name, and belongings of the respondents to anyone and maintain their privacy. Moreover, no respondent will be forced to take part in the research. Every individual has a right to either take part or not to take part in the research. The respondent's participation is completely voluntarily.

1.7 Organization of the Thesis

To evaluate the elements of administrative owners on the enactment of the firms was the elementary purpose of this investigation. The purpose is taken from the problematic testimonial of the investigation study as it comprises each aspect that should be assessed

in the investigation study. The problematic area which is going to be considered and investigation purpose is extremely related with that problem is involved in the problematic statement of the investigation study. The preceding emphasis of the investigation study is given to the positive or negative enactment of the firms. The negative performance of the firm is due to the administrative owners so for that reason numerous variables are involved in the investigation study namely; firm size, sales, top management per firm, serving directors, reimbursement, top administration ownership and firm's productivity.

In order to repossess the outcomes with the predictable influence of both dependent and independent variables different assumptions will be derived in this study. Along with that the investigation includes different means for assemblage of data with suitable selection techniques. The aspects which will be included in the administrative ownership and their enactments in an organization can be reconnoitered by this investigation. To study the determining factors that deal with the better enactments is the plan of this investigation assignment.

All the preliminary aspect was specified along with the research problem and assumption in the first chapter of the investigation study. The literature analysis which was based on the previous studies and various segments of the literature analysis will highlight the consequence of variables with respect to the past investigation in scrutinizing the factors of administrative ownership which affects the enactment of an association are involved in the Chapter two of research. Three research approaches along with methods and techniques are specified in this chapter. The findings, results and estimated endorsements will be made on the basis of the data composed and considered through various procedures and these will be discussed in the fourth and fifth chapter of study.

CHAPTER 2

LITERATURE REVIEW

2.1 Ownership Concentration and Performance

Efficiency of ownership concentration: expropriation vs. monitoring

Until the period of 1980's, noteworthy importance was given in the literature to the clash between administrators and investors on communal authority. The agency problem could be possibly restricted by the ownership attentiveness, since the owner has the authority to take necessary actions for better execution of orders and after that, better communal performances could be created, is a known or lengthily known phenomenon. Beneficial ownership concentration, which claims that stronger inducements are offered to large investors due to higher attentiveness of ownership in addition to the greater power existing at lower cost to keep an eye on administration, is explained by competent monitoring assumption (Lee, 2009). Therefore, due to the encouraged investors the business investment possibilities are increased. Many investigators believed that those investors who own large incentives in the company exhibit increased amount of preparedness in playing important role in the decision making of the associations because the benefits are partially affected from their determinations of observing. Through their increased engagement in the decision making process, the process flow is carried out in a mutually agreed way and aligned with the business objectives. In order to intercept and observe that range from formal deputation challenges to the informal discussions with the company's management different methods are used by large investors. This is primarily done for better execution of the decisions that are made by the higher management of the company and to ensure that there are no loop holes in the transmission of these decisions within the company. It has been observed that third party takeovers can be aided in that

case where large shareholders are not capable of observing administration themselves. This is done by distributing the large shares of the investors with the customer to generate a large customer base. But the administrative tasks are dealt by the third party, where they are responsible to run the business. (Adams and Ferreira, 2007).

The probable interest clash between minority investors and regulatory investors has increased the consideration of academics since the late 1990s (Denis and McConnell, 2003). The instance of marginal investors is limited by the productive investors and regulatory investors are allowed to take hold of the opportunities of minority investors- it is known as the hypothesis of expropriation-of-minority-investors. According to Gregory and McCorrison (2005), the benefits of only regulatory investors are signified in the firm if it is controlled by them, which should not be differed from the other shareholders' interests. The dominant investors are allowed to protect their control rights elite of money flow privileges by splendid elective rights, cross shareholding, and pyramidal control structure. Discrepancy between money flow privileges and control rights encourages the prevailing problem of expropriation of supervisors. "Tunneling" is the term used to define the transfer of the firms' possessions for the benefit of regulatory investors out of the firm. The raised money costs to the firms are brought by the terror of small investors of being expropriated or confiscate; therefore the unproductive investments are shadowed.

2.2 Managerial Ownership and Performance

Efficiency of managerial ownership: entrenchment vs. alignment

There are two prospects one is that some investors may act as reflexive investors directly, however others investors may show interest in observing the services and play dynamic role in the observing. The unique proficiency in order to inspire chief judgments of the administrations and value is the outcome of different incentives of the investors in addition to their different aptitudes. Insider ownership or the administrative ownership is studied comprehensively lately (Demsetz, and Villalonga, 2001). The connection between corporate value and administrative ownership can be formalized (Claessens, Djankov, and Lang, 2000).

As per Miguel, Pindado, and De La Torre (2004), high levels of administrative ownership in a reasonable amount can help in supporting the administrators' and investors' interest which can lead to the superior enactment of the company. The increase in the statements of the administrators on the outcomes of the performances and the lying afflictions on the concomitant costs with non-value exploiting performances is due to the increase in segment of abilities. Hence, it could be said that by the high level of administrative ownership can increase the possibility of administrators' considerable efforts dedication for creative activities and protecting themselves from burglary or misuse of corporate assets. If the manager of any association is also holding large shares of that associations- he will definitely try to maximize the shareholder/ firms value due to his own concern. However, Ahmad, Raj ,Aggarwal, and Tze Haw (2007) have also present downside of substantial management ownership. It is thought that if the administrators of the associations possess enough justice to ensure their position in the association through voting power, the value of the firm decreases. A manager with small shares will act to exploit the value of the firm in the market forces, whereas a manager possessing and controlling a considerable justice of the firm will insert himself from the restriction of the market- such as the administrative labor market or takeover threat. Thus, the effect of administrative ownership on the enactment is considered as the double-edged sword.

Endogeneity of Ownership

According to a Barzegar, and Babu (2009), ownership structure should be deliberated as the endogenous decision results that should be organized with the help of investors' profit exploiting interests. The physiognomies or certain features of the firm vary the most promising ownership level. A number of variables or factors such as investor protection, industry, firm size, etc. that probably help in determining the ownership structure also possess noteworthy effects on the presentation as well (Zhou, 2001). For instance, concentrated ownership gives the idea that association is bitterly monitored by large investors-therefore it is a positive influence because the firm value increases due to the better observing. However, it could also happen that concentration is commonly present

in any particular industry, which may be high valued on standard. Ownership structure is an endogenous element for the profit exploitation and communal entity value.

It entails large amounts of investment for a firm to grow. Thus, by offering the shares of the public to add to the firm's equity share investment the need of investment requirement is fulfilled. The subscription by the public for the firm's equity share investment opens the company to ownership construction dispersion. Thus, this dispersion of distribution increases the value of the firm and to exploit the profits of the firm single ownership of the company is not sufficient (Earle, Kucsera, and Telegdy, 2005). Generally, many studies have stated the positive connection between ownership deliberation and presentation or profit exploitation of the firm (Pedersen, and Thomsen, 2000). Therefore, in existing literature there are different concepts and assumption are present which give different thoughts over the connection between administrative ownership and presentation of the organization.

2.3 Firm Size and Profitability

Mixed results regarding the connection between industrial scope and productivity are showed by the past literature. Many investigations show positive results between industrial scope and productivity while other showed negative connection (Vijayakumar and Tamizhselvan, 2010; Papadognas 2007). Due to different sample and industry alterations occur in the result. Vijayakumar and Tamizhselvan (2010) found out that there is positive connection between the two variables. Semi logarithmic model was used by this investigation for the exploration of the connection between the two. Sample of 15 companies were used by this paper and found out that firm productivity is linked to industrial scope. Greater size of firm made greater profit and vice versa.

Another study was conducted by Papadognas (2007) in which 3000 Greek company's data was used. Industrial scopes are classified into four types by this paper and regression technique was used in order to test reliance. This paper concluded that productivity is dependent on industrial scope. In addition to that, Lee (2009) also came to similar conclusion. If all other variable are controlled, industrial scope affects the productivity and performance of the firm, is the conclusion obtained from this paper. The

investigation by Dlugosz, Fahlenbrach, Gompers, and Metrick, (2006) concluded that productivity and industrial scope are strongly interrelated. About 7000 company's data was used and scrutinized through fixed effect panel. It decided that a strong role in productivity is played by industrial scope.

2.4 Compensation of Top Management and Profitability

The connection between reimbursement of top administration and firm profitability is deliberated by this section. There are two parts of top administration compensation i.e. pay and bonus. Different role in inspiring top administration to perform better is played by both wage and bonus. As far as bonuses are concerned, firm presentation is enhanced by bonuses in short term. As soon as bonuses are distributed, the accounting presentation of the company increases to some extent (Zhou, 2001). Wage is more related to complexity of the top administration job (Pedersen and Thomsen, 2000). There is very little effect of wage on firm presentation. Bonuses have a wide-ranging outlook. Firm presentation is effected to a higher amount by bonuses. This is why companies play with bonuses to improve the top administration presentation.

2.5 Number of Board of Directors and Profitability

It is a fact that as the number of directors increases the firm presentation goes up. Two foremost roles in company are accomplished by the panel of managers. They play the role of advisor and monitor (Adams and Ferreira, 2007). The panel of managers advises company about what to do or what not to do. The boards of directors are experts and give their advice to CEO about the strategic decision of the company. There may be internal panel of managers or external panel of managers. However, the past literature show that as compared to internal panel of managers, the external panel of managers bring in outside information about the market so they are more useful than internal panel of managers (Fama and Jensen, 1983). Having large number of panel of managers has advantages as well as disadvantages. Having larger number of panel of managers helps

company to have diversified sources of information. This would also bring in more in depth information and as a result, firm presentation progresses (Demsetz, and Villalonga, 2001).

Another main advantage of having larger number of panel of managers is that they make better judgments to make sure that the administration is working towards the company mission and aims. There is no misalignment in goals and objectives are the major responsibility of panel of managers. According to Raheja (2005), the internal panel of managers brings in important internal information about the firm. However, there may be misrepresentation between firm and private objectives of the internal directors. The outside panel of managers helps the company in attaining outside market related statistics so they are helpful. They are more exposed to outside information and thus less connected to firm accomplishments.

Functions can be watched in a better way by having large number of panel of managers. Large number of panel of managers brings in cherished information for future important and premeditated decisions (Lehn Sukesh and Zhao, 2004). Thus, the firm presentation goes on increasing with the increase in board size. The productivity of the firm is affected positively by the number of non-executive directors (Barzegar, and Babu, 2009).

Like advantages, there are some disadvantages of large board size as well. Free rider or harmonization problems may ascend due to having large board size. The firm may not be able to harmonize and communicate well due to large board size. The firm would experience trouble in bringing all the panel of managers under one platform i.e. arrange board meetings or reaching agreement. Due to more number of members the decision making process would also slow down. Maximal consistency cannot be attained among panel of managers as they would not be able to interconnect clearly due to personal differences. More members would also lead to more individual point of views and eventual difficult decision-making. According to Claessens, Djankov, and Lang (2000), disadvantages offset the advantages as board size crosses the perimeter i.e. more than 30, the. More number of boards of directors adds to the cost of the firm and lessens profitability.

CHAPTER 3

RESEARCH METHOD

3.1 Nature & Type of Research

The nature of the research is descriptive and exploratory. From the two broad methods of reasoning used in the research; inductive and deductive approach, the method of reason adopted in this research is *deductive* in nature. Thus, as it's a top to down approach where the theory is present and then the research is conducted to prove the theory. Therefore, the start point is the theory i.e. the research subject "Managerial ownership and the Link between Ownership and Performance". For conducting the research further, literature review is carried out to gain secondary knowledge about the topic and deduce hypotheses and observation, on the basis of this further primary research is carried out.

The main purpose of primary research is to gather information and discuss its implication on the theory that is generated. The statistical data generated from the data gathered through primary data collection further leads to the hypotheses, thus this show the use of deductive approach being used. The further discussion on the hypotheses leads to the process of proving the theory. Therefore, the research conducted provides the proof to support the theory analysed earlier in the literature review.

3.2 Sample Size

Data used in this research can be available from different firms. This method is adopted for the convenience of readily gathering data. Since the data will be gathered timely and at a rapid pace, the process of analyzing it will be faster and will take less time to articulate it. As the data is gathered from different firms, the results that are generated are

not constant which leading to the absence of sample size as a no. of firms is used. Following sample size is used in this research study:

$$(\text{Number of companies}) \times (\text{Number of Years})$$

3.3 Sampling Technique

Different sample sizes are used in different theses and they are suggested on the base of suitability and ease of the research workers. These firms were selected for the research that were reliable and suitable and were working for more than **seven years** in their specialized field. This criterion is used for the need to have an extensive data. Those companies which are working for a longer period of time, has been doing their operations vastly and at much higher levels. Because of this reason the data generated from it will be accurate and thoroughly linked with the operational realities of a business. *Suitability factor* was measured on the base of sampling techniques because companies usually do not allow any outsider to access their data. Since the focus was on the readiness and availability of suitable data, therefore these companies were examined on the basis of yearly records related to the required characters that are under consideration for the research.

3.4 Data Collection Methods

For the collection of information, two methods are used commonly known as primary and secondary data collection. Secondary data collection method was generally adopted for the collection and review of existing data like the data in the books, news and articles. These data sources are reliable and printed as a connection with the variables suggested in the research. Primary data collection method emphasizes on the assessment on the basis of current performances of the firms and the trends of the terms in the modern era. Researching the recent market provides the contemporary data, which further adds to the research already being done on the subject. Thus, the most important advantage of

primary research is gaining new information. Therefore, this method is adopted after the secondary data collection. In order to, gain comprehensive knowledge, knowledge innovation and implementing the knowledge gained in a methodological and contemporary manner in day to day operations.

3.5 Instrument of Data Collection

Analysis of annual reports of several industries was the tool used for this research study. Those firms were working for at least seven years. So those companies were selected that were ready to share their data and also they were reliable and suitable. All the data was collected from related firms in order to provide a comparative analysis of the data extracted. This is mainly done to get a sound knowledge of the key variable in the comparable companies' annual reports that are closely linked with the research topic. Thus, that is why only the suitable and easily available data was being collected with the purpose to readily evaluate the data and perform the statistical analysis to concur / drive assumption and conclusions.

3.6 Statistical Technique Used

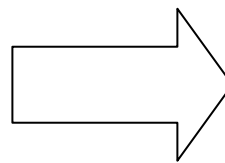
This research study includes the quantitative study of data collected from the primary data collection method. SPSS software was used to complete this analytical method. In SPSS, the coding of all data is used to investigate the outcomes. The numerical test that was used in the research was the Multiple Linear Regression. Significance of the study work was assessed using this method connected to a value that shows the relation of both variables. This multiple regression technique computes and interprets the actual amount of data. This collected data is reliable and it is assumed to be suitable and accurate in every aspect.

3.7 Research Model

Research Model is adopted to provide an outline / sketch of the whole research process. The research model adopted in this study is stated as follows. Since there are always the dependent and independent variable, the research model for this research also has dependent variables with independent variables and the whole study is centered on it. Thus a relationship exists in these variables which are also the measure of productivity and administrative ownership of a firm. The suitable relationship among the variables can be predicted from this research model drawn below:

Figure 3.1

Administrative Ownership



Firms Profitability

Dependent variables:

- Firm Size
- Trades
- Top Managers Per firm
- Top management possession
- Serving executives
- Compensation

CHAPTER 4

DATA INTEGRATION & ANALYSIS

4.1 Statistical Results

Statistical tools are one of the important factors in the field of research and study. Statistical tools are of various forms and types but in this research study as the quantitative data will be involved thus the tool used will be SPSS. SPSS software was used to complete this analytical method. In SPSS, the coding of all data is used to investigate the outcomes. The numerical test that was used in the research was the Multiple Linear Regression. Significance of the study work was assessed using this method connected to a value that shows the relation of both variables. This multiple regression technique computes and interprets the actual amount of data. This collected data is reliable and it is assumed to be suitable and accurate in every aspect. Now after the data collection has been done and the data has been analyzed via SPSS in detail so here are the results of the study. Following tables show the outcomes of the data analysis through the chosen statistical tools:

Table 4.1

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|-------------------|-------------|------------|-------------|--------|
| FIRM_SIZE | -10613.23 | 3881.860 | -2.734058 | 0.0066 |
| NO_OF_MANAGERS | 17153371 | 18908000 | 0.907202 | 0.3651 |
| TRADES | 0.127654 | 0.009573 | 13.33512 | 0.0000 |
| SERVING_EXECUTVES | 5817283. | 14596313 | 0.398545 | 0.6905 |
| C | 42553468 | 1.19E+08 | 0.357292 | 0.7211 |

Table 4.2

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|-----------------------|-------------|--------------------|-------------|----------|
| FIRM_SIZE | -13543.49 | 6833.280 | -1.981990 | 0.0484 |
| NO_OF_MANAGERS | 18899430 | 31324963 | 0.603334 | 0.5468 |
| TRADES | 0.098184 | 0.012222 | 8.033437 | 0.0000 |
| SERVING_EXECUTIV | | | | |
| ES | -7616265. | 21797067 | -0.349417 | 0.7270 |
| C | 1.67E+08 | 1.85E+08 | 0.904060 | 0.3667 |
| Effects Measurement | | | | |
| | | | S.D. | Rho |
| Cross-section random | | | 2.23E+08 | 0.6417 |
| Idiosyncratic random | | | 1.66E+08 | 0.3583 |
| Subjective Statistics | | | | |
| R-squared | 0.206077 | Mean dependent var | | 56292213 |
| Adjusted R-squared | 0.195126 | S.D. dependent var | | 1.86E+08 |
| S.E. of regression | 1.67E+08 | Sum squared resid | | 8.04E+18 |
| F-statistic | 18.81863 | Durbin-Watson stat | | 1.539692 |
| Prob(F-statistic) | 0.000000 | | | |
| Unweight Statistics | | | | |
| R-squared | 0.410015 | Mean dependent var | | 1.92E+08 |
| Sum squared resid | 2.22E+19 | Durbin-Watson stat | | 0.556834 |

Table 4.3

Connected Random Effects - Hausman Test

Equation: Untitled

Test cross-section random effects

| Test Summary | Chi-Sq. Statistic | Chi-Sq. d.f. | Prob. |
|----------------------|-------------------|--------------|--------|
| Cross-section random | 4.692036 | 4 | 0.3204 |

Table 4.4

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|------------------|-------------|------------|-------------|--------|
| FIRM_SIZE | -14817.10 | 14034.52 | -1.055761 | 0.2921 |
| NO_OF_MANAGERS | 17154832 | 50073438 | 0.342593 | 0.7322 |
| TRADES | 0.082037 | 0.015050 | 5.451099 | 0.0000 |
| SERVING_EXECUTIV | | | | |
| ES | -14063300 | 30356598 | -0.463270 | 0.6436 |
| C | 2.36E+08 | 2.65E+08 | 0.891350 | 0.3736 |

Effects Specification

Cross-section fixed (dummy variables)

| | | | |
|--------------------|-----------|-----------------------|----------|
| R-squared | 0.822812 | Mean dependent var | 1.92E+08 |
| Adjusted R-squared | 0.783845 | S.D. dependent var | 3.58E+08 |
| S.E. of regression | 1.66E+08 | Akaike info criterion | 40.86220 |
| Sum squared resid | 6.68E+18 | Schwarz criterion | 41.53711 |
| Log likelihood | -5973.175 | Hannan-Quinn criter. | 41.13245 |
| F-statistic | 21.11573 | Durbin-Watson stat | 1.877120 |
| Prob(F-statistic) | 0.000000 | | |

Table 4.5

Terminated Fixed Effects Tests

Equation: Untitled

Test cross-section fixed effects

| Effects Test | Statistic | d.f. | Prob. |
|--------------------------|------------|----------|--------|
| Cross-section F | 10.893106 | (49,241) | 0.0000 |
| Cross-section Chi-square | 344.488964 | 49 | 0.0000 |

This technique is adopted only to analyze the effect of forecasters on the productivity of the firm. From the table, it is visible that the value of adjusted r_square is 0.783 or we can say 78.3%. It depicts that one unit change in forecasters set will bring a change of 78.3% on the productivity of the firm. The f value for the model is 0.000 that exhibit the authentication of the model and recommends that variation that is clarified by model is not due to a chance.

4.2 Critical Debate

Now as the results and the data of the results has been mentioned in the previous section of this chapter so now we will look at the critical debate of this study where we will look at each hypothesis and see if it has been approved or rejected as per the statistical results for this study. Each hypothesis holds critical importance in getting to the conclusion of the study thus one by one each hypothesis will be looked upon.

H1: Firm Size has important relationship with firm's productivity.

The constant value of firm size can be taken from the above table as -14,817 that show it has a negative relationship with the productivity of the firm.

Moreover, the sig value is 0.2921 that is greater than 0.05. It shows that there is no major impact of the firm size on the firm's productivity. So the above hypothesis is rejected.

H2: Trades has noteworthy relationship with firm's productivity.

Using the table above, it can be seen that the coefficient value of trades is 0.082 that depicts its positive relationship with the productivity of the firm. It also represent that increase in number of trades will increase the profit and productivity of the firm.

Also the sig value is 0.000 that is less than 5%. So, there is an important effect of the trades on the firm's profitability hence the above hypothesis is not rejected.

H3: important relationship of top management per firm with firm's productivity.

A constant value of 1715483 of ERS is taken from the above table that shows it has a positive relationship with the productivity of the firm.

The sig value of 0.7322 that is greater than 0.05 also shows that there is no noticeable impact of the managers per firm on the firm's productivity hence the above hypothesis is rejected.

H4: Top management ownership has important relationship with firm's productivity.

Variable is N/A thus no results could be gathered and evaluated for this hypothesis.

H5: Serving directors has significant relationship with firm's productivity

The coefficient value of firm size as -140633 can be seen from the above table that shows it has a negative relationship with the productivity of the firm.

The sig value is 0.6436 that is greater than 0.05. It shows there is no significant impact of the serving executives on the firm's productivity hence the above hypothesis is rejected.

H6: Compensation has significant relationship with firm's profitability

Variable is N/A thus no results could be gathered and evaluated for this hypothesis.

Researchers claim that increase in the level of distribution of ownership and decreased the power of shareholders to manage the firm matters and to control it as a central unit. It was suggested that the company ownership will have a hold on the administration but it doesn't contribute to the profitability directly, although the decisions made by the shareholders can lead to the better performance of the firm but it isn't necessary that this is true in every scenario. So, many researchers have suggested that there is a negative relation between ownership structure and productivity or performance of the firm. In contradict to that, other researchers negate their thoughts and they suggested that this relation is positively valid to some extent. It does not reduce the reasons that increase the

profit to the maximum level to get to the point that the resource distribution is optimized by utilization of the firm's resources. The owners are the ones who are responsible to ensure the equilibrium in the resource viability and availability. Thus through the literature review as the research emphasizes, examination of the previous work done on this topic has been done by different people. Most of the studies also comments that there is a relation between the management and the profit attained by the firms but there are some key implications that are also involved with it. Therefore through the primary research it was found that ownership do have a affect but it does not implicates a direct influence, but those decisions that are primarily interlinked with the financial aspects of the company does affects the profitability of the firm and its future performance.

4.3 Hypotheses Assessment Summary

Hypothesis summary shown below gives us an overview of the results of this study. It clearly states that almost all the hypothesis are rejected except one which is 'Firm's productivity has a significant relationship with trades' and it is quite clear that if trade goes down within a company so its productivity will go down but rest of the variable and their relationships have not be approved as per the results of the study. This research in terms of its hypothesis has failed while if we look at the outcome it has been proved that variables like Firm Size, Top management per firm and serving directors have no major relationship with firm's productivity while only variable in this study which affects firm's productivity is trade or trading within the company.

| Hypothesis | Sig. Value | Result |
|--|------------|----------|
| H1: Firm Size has significant relationship with firm's productivity. | 0.2921 | Rejected |
| H2: Firm's productivity has a significant relationship with trades. | 0.000 | Accepted |
| H3: Top management per firm has significant relationship with firm's productivity. | 0.7322 | Rejected |
| H4: Firm's productivity has noticeable relationship with serving directors. | 0.6436 | Rejected |

CHAPTER 5

DISCUSSION

This study has investigated the kind the determinants of managerial ownership and the link between ownership and performance. The basic drive of the research study was to analyze determinants which are affecting the performance of an organization along with that evaluating the profitability of the firm with various factors such as compensation, top management, service director, firm size and sales on the firm's profitability. Sampling techniques used in the dissertations are distinct because these are selected on the basis of convenience for the researchers. In this research study, the companies were selected which were available conveniently that are operating in the industry for more than seven years. The factor of convenience was involved in the techniques of sampling because many of the companies do not allow anyone outside the company to use their data. Annual reports of the companies were evaluated in order to analyze and retrieve the appropriate findings. It is concluded that firm Size, top management per firm and serving directors have no significant relationship with firm's profitability. On the other hand sale has significant relationship with firm's profitability.

For policy makers and economists, the vital part is to find out if the administrative ownership has an effect on the performance or not. If it is found to have an effect then they want to know that how it affects. This connection is studied by many research workers who control modern firms. It was found that if owners part away, it clearly decreases the management reasons and increases the business working to the maximum level. In business governance, to decide the contradictions among the managers and shareholders, ownership arrangement is assumed to play the vital role. Significant amount of work is done related to this topic in past thirty years but most of the data collected in the past was vivid.

Researchers claim that increase in the level of distribution of ownership and decreased the power of shareholders to manage the firm matters and to control it as a central unit. It

was suggested that the company ownership will have a hold on the administration but it doesn't contribute to the profitability directly, although the decisions made by the shareholders can lead to the better performance of the firm but it isn't necessary that this is true in every scenario. So, many researchers have suggested that there is a negative relation between ownership structure and productivity or performance of the firm. In contradict to that, other researchers negate their thoughts and they suggested that this relation is positively valid to some extent. It does not reduce the reasons that increase the profit to the maximum level to get to the point that the resource distribution is optimized by utilization of the firm's resources. The owners are the ones who are responsible to ensure the equilibrium in the resource viability and availability. Thus through the literature review as the research emphasizes, examination of the previous work done on this topic has been done by different people. Most of the studies also comments that there is a relation between the management and the profit attained by the firms but there are some key implications that are also involved with it. Therefore through the primary research it was found that ownership do have a affect but it does not implicates a direct influence, but those decisions that are primarily interlinked with the financial aspects of the company does affects the profitability of the firm and its future performance.

CHAPTER 6

CONCLUSION & RECOMMENDATIONS

6.1 Conclusion

Conclusion is the most significant part of any research study thus the study has to be concluded well and efficiently. From this research study, it is determined that firm Size, top management per firm and serving executives have no noteworthy relationship with firm's productivity and profitability. In contrast, trades and sales have a significant relationship with firm's profitability. This is the key observation / hypothesis made that has been proved through this research.

Through primary research it was found that ownership do have a affect but it does not implicates a direct influence, but those decisions that are primarily interlinked with the financial aspects of the company does affects the profitability of the firm and its future performance.

The results of the analysis showed that a firm size has a week positive impact on firm profitability. There are several possible reasons for this kind of firm size influence. Namely, due to their market power larger firms are able to charge higher prices and hence earn higher profits. Additionally, higher profits could also be result of economies of scale and stronger negotiating power that provides larger firms more favorable financing conditions. However, reasons why this relationship is relatively weak can be found in separation of ownership from management in modern corporations that shifted managers' focus from maximization of profit to maximization of managerial utility. Along with inflexible organization structure and used technology, a change in strategic logic of firms (it became more important to survive during a global economic crises than to increase

profitability) also provides some additional explanations of a weak relation between firm size and profitability. Regarding other variables, the results of the formulated model, as expected, showed that growth of asset utilization will increase firm profitability, while a greater indebtedness of a firm will lead to lower profitability. Liquidity measured by current ratio turned out to have a statistically insignificant impact on profitability.

6.2 Recommendations and Implications

Recommendations are important part of this study. From results, it is very clear that trades are very important as far as their relation with productivity of a firm is concerned. So, a company should increase their number of trades to prosper. This is a necessary step because without it the chances of better performance in future prospects are considerably less.

6.3 Future Research

The major limitation faced in this research where the time constraints. The time allocated for each activity was not enough that's why the time limit was increased for each activity. The second limitation was the data viability and also the availability. The annual reports that were selected gave little and few information that's why those companies were selected for which data was readily available and also viable.

Depending on available data, future studies on firm profitability may include additional explanatory variables as well as enlargement of used sample in a way that it involves cross-country analysis.

In future, researches will be conducted on the basis of other aspects of this field. One of the examples is that the company names are effective or not effective in changing the productivity of an industry.

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APPENDICES

Appendix 1

Dependent Variable: PROFITABILITY

Method: Panel Least Squares

Date: 12/11/13 Time: 15:00

Sample: 2009 2014

Periods included: 6

Cross-sections included: 50

Total panel (unbalanced) observations: 295

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|--------------------|-------------|-----------------------|-------------|----------|
| FIRM_SIZE | -10613.23 | 3881.860 | -2.734058 | 0.0066 |
| NO__OF_MANAGERS | 17153371 | 18908000 | 0.907202 | 0.3651 |
| SALES | 0.127654 | 0.009573 | 13.33512 | 0.0000 |
| SERVING_DIRECTOR | 5817283. | 14596313 | 0.398545 | 0.6905 |
| C | 42553468 | 1.19E+08 | 0.357292 | 0.7211 |
| R-squared | 0.430378 | Mean dependent var | | 1.92E+08 |
| Adjusted R-squared | 0.422521 | S.D. dependent var | | 3.58E+08 |
| S.E. of regression | 2.72E+08 | Akaike info criterion | | 41.69776 |
| Sum squared resid | 2.15E+19 | Schwarz criterion | | 41.76025 |
| Log likelihood | -6145.420 | Hannan-Quinn criter. | | 41.72278 |
| F-statistic | 54.77737 | Durbin-Watson stat | | 0.573242 |
| Prob(F-statistic) | 0.000000 | | | |

Appendix 2

Dependent Variable: PROFITABILITY

Method: Panel EGLS (Cross-section random effects)

Date: 12/11/13 Time: 15:01

Sample: 2009 2014

Periods included: 6

Cross-sections included: 50

Total panel (unbalanced) observations: 295

Swamy and Arora estimator of component variances

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|------------------|-------------|------------|-------------|--------|
| FIRM_SIZE | -13543.49 | 6833.280 | -1.981990 | 0.0484 |
| NO__OF_MANAGERS | 18899430 | 31324963 | 0.603334 | 0.5468 |
| SALES | 0.098184 | 0.012222 | 8.033437 | 0.0000 |
| SERVING_DIRECTOR | -7616265. | 21797067 | -0.349417 | 0.7270 |
| C | 1.67E+08 | 1.85E+08 | 0.904060 | 0.3667 |

Effects Specification

| | S.D. | Rho |
|----------------------|----------|--------|
| Cross-section random | 2.23E+08 | 0.6417 |
| Idiosyncratic random | 1.66E+08 | 0.3583 |

Weighted Statistics

| | | | |
|--------------------|----------|--------------------|----------|
| R-squared | 0.206077 | Mean dependent var | 56292213 |
| Adjusted R-squared | 0.195126 | S.D. dependent var | 1.86E+08 |
| S.E. of regression | 1.67E+08 | Sum squared resid | 8.04E+18 |
| F-statistic | 18.81863 | Durbin-Watson stat | 1.539692 |
| Prob(F-statistic) | 0.000000 | | |

Unweighted Statistics

| | | | |
|-------------------|----------|--------------------|----------|
| R-squared | 0.410015 | Mean dependent var | 1.92E+08 |
| Sum squared resid | 2.22E+19 | Durbin-Watson stat | 0.556834 |

Appendix 3

Correlated Random Effects - Hausman Test

Equation: Untitled

Test cross-section random effects

| Test Summary | Chi-Sq. Statistic | Chi-Sq. d.f. | Prob. |
|----------------------|-------------------|--------------|--------|
| Cross-section random | 4.692036 | 4 | 0.3204 |

Appendix 4

Dependent Variable: PROFITABILITY

Method: Panel Least Squares

Date: 12/11/13 Time: 15:01

Sample: 2009 2014

Periods included: 6

Cross-sections included: 50

Total panel (unbalanced) observations: 295

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|------------------|-------------|------------|-------------|--------|
| FIRM_SIZE | -14817.10 | 14034.52 | -1.055761 | 0.2921 |
| NO_OF_MANAGERS | 17154832 | 50073438 | 0.342593 | 0.7322 |
| SALES | 0.082037 | 0.015050 | 5.451099 | 0.0000 |
| SERVING_DIRECTOR | -14063300 | 30356598 | -0.463270 | 0.6436 |
| C | 2.36E+08 | 2.65E+08 | 0.891350 | 0.3736 |

Effects Specification

Cross-section fixed (dummy variables)

| | | | |
|--------------------|-----------|-----------------------|----------|
| R-squared | 0.822812 | Mean dependent var | 1.92E+08 |
| Adjusted R-squared | 0.783845 | S.D. dependent var | 3.58E+08 |
| S.E. of regression | 1.66E+08 | Akaike info criterion | 40.86220 |
| Sum squared resid | 6.68E+18 | Schwarz criterion | 41.53711 |
| Log likelihood | -5973.175 | Hannan-Quinn criter. | 41.13245 |
| F-statistic | 21.11573 | Durbin-Watson stat | 1.877120 |
| Prob(F-statistic) | 0.000000 | | |

Appendix 5

Redundant Fixed Effects Tests

Equation: Untitled

Test cross-section fixed effects

| Effects Test | Statistic | d.f. | Prob. |
|--------------------------|------------|----------|--------|
| Cross-section F | 10.893106 | (49,241) | 0.0000 |
| Cross-section Chi-square | 344.488964 | 49 | 0.0000 |

Appendix 6

| Gul Ahmed Textile Mills Limited - PKR Million | | | | | | | Nishat Mills Limited Rs. '000' | | | | | | |
|---|---------------------------------------|------------|------------|------------|------------|------------|--------------------------------|------------|------------|------------|------------|------------|------------|
| Sr. No | Variables | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
| 1 | Profitability | 1,775,000 | 2,359,000 | 3,173,000 | 4,627,000 | 3,486,000 | 4,699,000 | 2,811,000 | 4,351,000 | 5,980,000 | 7,846,000 | 6,789,000 | 9,044,000 |
| 2 | Firm Size (Number of persons) | 7509 | 8056 | 8765 | 9,860 | 10,298 | 12,436 | | | 13,645 | 15,980 | 16,650 | 17,060 |
| 3 | Sales | 11,726,000 | 13,906,000 | 16,689,000 | 25,435,000 | 24,918,000 | 30,202,000 | 19,589,000 | 23,870,000 | 31,535,000 | 48,565,000 | 44,924,000 | 52,426,000 |
| 4 | Top Managers Per Firm | 3 | 3 | 2 | 2 | 3 | 4 | 2 | 2 | 2 | 2 | 3 | 5 |
| 5 | Top Management Ownership | | | | | | | | | | | | |
| 6 | Serving Directors | 9 | 9 | 9 | 9 | 9 | 9 | 7 | 7 | 7 | 7 | 7 | 7 |
| 7 | Compensation (For directors annually) | | | | | | | | | 3,356,000 | 3,705,000 | | |

Appendix 7

| Kohinoor Mills Limited Rs in '000' | | | | | | | Fateh Textile Mills Limited | | | | | | |
|------------------------------------|-------------|-------------|-------------|-------------|---------------|---------------|-----------------------------|---------------|---------------|---------------|------|---------------|--------|
| 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2008 | 2009 |
| 793,521,000 | 659,138,000 | 324,598,000 | 546,923,000 | 918,875,000 | 1,378,313,000 | 443,779,585 | 79,140,452 | 18,568,130 | 543,247,679 | 278,921,635 | 2013 | 335,111,025 | 387,51 |
| 1300 | 1400 | 1500 | 1,500 | 1400 | 1400 | 579 | 334 | 322 | 202 | 279 | | 2000 | |
| 6,071,271 | 7,578,475 | 6,214,372 | 5,210,209 | 6,262,868 | 8,451,771 | 4,716,081,695 | 3,050,988,913 | 2,442,558,995 | 2,825,314,922 | 2,684,459,161 | | 3,101,039,029 | 3,71 |
| 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | | 2 | |
| 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | | 10 | |
| | | | | | | 9,082,328 | 8,380,600 | | | | | | |

