Role Of Board Size In Corporate Governance And Firm Performance

Applying Pareto Approach, Is It Cultural Phenomena?

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ABSTRACT

This paper examines the relationship between board size and firm performance. This relationship is tested in the light of Pareto Approach for Pakistani banking sector. For this purpose a sample of fourteen listed commercial banks of Pakistan are taken for analysis from 2008-2012 on the basis of their performance. Different econometric models are applied to test the relationship between bank performance variables and corporate governance practices in these banks. The results of this study are contradictory with the existing literature of corporate governance variables and firm performance. The most prominent result of this paper is the significant positive relationship between board size and bank performance. It is concluded in the findings that a large board size can enhance the bank performance in Pakistani scenario.

Keywords: Corporate Governance; Board Size; Bank Performance; Pareto

1. INTRODUCTION

The role of corporate governance in today's corporate world is gaining importance day by day. That is the very reason academicians around the world are paying more attention developing and testing the existing and new practices of corporate governance. The evolution of new rules and codes of governance is a significant achievement of these researchers and practitioner, but there is still a huge gap in the development of new corporate governance codes for under developed countries which needs to be filled sooner in order to achieve better firm performance. Albeit, today's world is known as a global village but no one can apply the new set of governance rules for every part of the world. It is the fact that due to diverse culture, different financial environment, and heterogeneous legal frame work of the countries, these codes may not be useful for every country. In today's corporate world every country has to develop its own set of codes and rules of corporate governance.

The evolution process of corporate governance codes had started from the developed world and gradually passed on to developing countries. But no significant amount of work has been done for under developing countries in order to suggest new rules of corporate governance. In developed countries, the new codes of corporate governance are not only introduced but are practiced frequently in their corporate sectors. By practicing these new rules and codes of corporate governance the corporate sector of the western world is gaining success by significant increases in their firm performance. On the other hand, the same set of corporate governance rules do not give the same success to the corporate sector of the under developing countries. The reason is very obvious and logical that due to different financial and legal environments of under developing countries, one cannot get the same results from using those codes which are developed for western and civilized countries. In fact, this practice might create some serious consequences in these parts of the world in the form of disturbing foreign and domestic inflows.

Un-doubtfully, corporate governance is the smooth and safe road for investors to achieve good results in term of profits and returns (Smith, 1996; Huson, 1997; Nesbitt, 1994; Carleton et al., 1998; Strickland et al., 1996). Corporate governance is defined in several ways; Organization for Economic Co-operation and Development (OCED) explained "Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of obtaining those objectives and monitoring performance are determined." Cadbury Committee (1992) defined it as "The system by which companies are directed and controlled."

From the given explanation of corporate governance, one can understand that it's all about the protection of shareholders rights. It is very obvious that the shareholder has zero tolerance about firm performance. It is argued that the outcome of good governance is good performance (Yang, 2011; Andres, 2008; Tandelilin, 2007; Aebi et al., 2010). Things are very simple and straight as far as corporate governance practices and its importance is concerned, but things are complicated when different variables of corporate governance are taken under consideration like board size, number of meetings in a year, profile of CEO, ownership structure, etc. No doubt all these variables have their due importance but their combination is very critical for achieving good governance and better performance. This issue got academicians attention very promptly and many researchers have come up with different and interesting results. Every author has defended his findings in a very logical and sophisticated way.

This paper contributes something new and interesting in the existing debate of corporate governance codes by borrowing one famous economic theory: Economic Pareto Efficiency (1848-1923) theory. This theory explains that it is impossible to make any individual better off without making at least one individual worse off. This paper is motivated by this theory and its application in Pakistan's financial market. Pakistan is an under developing country that is sixty four years old. It is a common fact that, more or less, all under developing countries are not good at governance. So Pakistan is not an exception. In the Pakistan corporate sector, one local term is very commonly used which needs to be defined; i.e., "Seith Culture" or "Vedera Culture" which means a group of people who have a lot of money and authority in the society and they can run their own businesses in their own style. Due to this culture they appoint their likeminded people as members of the board of directors. Later, those directors implement "Seith" agenda and protect Seith's (an individual with a specific approach and mind set) interest at the cost of minority shareholders rights. The number of studies in the western world suggested that smaller board size can enhance firm performance; e.g., Jensen (1993) suggests that board sizes in the U.S. tend to be too large and should not be more than 8 directors. This may be true for developed economies but might not be true for under developing countries like Pakistan.

That is the very reason this study suggests opposite model for Pakistan. For this purpose a sample of Pakistani private and state owned commercial banks is taken for analysis. These banks are further classified into conventional and Islamic banks. Pakistan has been introducing a liberal and efficient financial market since 1980 (State Bank of Pakistan, 1980) by privatizing state-owned banks and encouraging new domestic and foreign entries into the market. Apart from these financial reforms, a Code of Corporate Governance has been implemented to all listed companies in Pakistan to encourage good governance in 2002, which was introduced by the Securities Exchange of Pakistan. The rest of the paper consists of following parts: Part 2 includes review of literature, Part 3 explains data and methodology, and finally Part 4 discusses the findings and conclusion.

2. REVIEW OF LITERATURE

The relationship between corporate governance, especially board size and firm performance, is still a fundamental issue for researchers. Prior studies in this context put more focus on the performance but ignore the cultural phenomena (Demsetz & Lehn, 1985; Morck et al., 1988). This study extends the literature with this hypothesis that a firm with larger board size has a positive relationship with its performance under specific cultural aspects.

There is a consensus among academicians that a large board size causes a coordination problem between members. Jensen (1993) suggests that board sizes in the U.S. tend to be too large and should not be more than 8 directors. On the other hand, there may be a tradeoff between coordination cost and prospective ideas. If we ignore

the coordination cost, a large board size can add more ideas to the board which may be beneficial for the firm in the decision making process.

In some cultures, businesses are controlled by small dominated groups like family members and they run their business for their own interest; this fact has encouraged some scholars to study the influence of such boards on firms performance (Claessens et al., 2002; Villalonga & Amit, 2006; Dalton et al., 1998). The Pareto Efficiency (1848-1923) theory explains the phenomena that it is impossible to make any one individual better off without making at least one individual worse off. This paper also argues that board of directors are always making decisions just for the betterment of themselves and making the minority shareholders worse off. Especially in Pakistan, company directors have their own side businesses and they often make decisions to get benefits of their own side businesses. Particularly in the case of the Pakistani banking industry, directors sanctioned risky loans to their own side businesses at the cost of minority shareholders stakes. All these bad decisions may lead to bad firm performance (Anderson & Reeb, 2003; Ang et al., 2000; Bennedsen et al., in press; McConaughy et al., 1998; Cronqvist & Nilsson, 2003; Maury, 2006; Villalonga & Amit, 2006).

In developed countries it may be true that family ownership enhances the performance of the firms due to their cultural phenomena as they have sophisticated and well developed mechanisms (Anderson & Reeb, 2003, 2004; McConaughy et al., 1998; Villalonga & Amit, 2006). But in under developing countries like Pakistan where things are at a growing stage it is entirely opposite of developed nations (Claessens et al., 2002; Cronqvist & Nilsson, 2003; Maury, 2006; Bennedsen et al., in press). In this article, we argue that it is a cultural phenomenon that a large board size can increase firms performance because a large board size might be a hurdle for a smaller group who wants to do all the ill-doing at the cost of minority shareholders right.

3. DATA AND ESTIMATION

In this section we explain the data sources of governance variables and performance.

3.1 Sample of Data

The Pakistani banking industry is the combination of commercial banks, specialized banks, and state-owned banks. On the basis of bank performance, a sample of fourteen banks is selected which include commercial banks, micro finance banks, and insurance companies. The selected banks also include state owned, private, and Islamic banks which are listed on the local Karachi stock exchange. The financial data of the selected banks are taken from the annual published financial reports by the State Bank of Pakistan for the period of 2008-2012. This time period is important for the Pakistani banking sector because most of the corporate governance codes are drafted and implemented during this time span.

3.2 Governance and Performance Variables

Return on equity (ROE), return on asset (ROA), and earning per share (EPS) are taken as proxies for bank performance. In the suggested econometric models these variables are computed as dependent variables. For the corporate governance variables, board size, number of meetings held, size of audit committee, and number of shareholders are used.

3.3 Descriptive Statistics

Table 1 highlights the descriptive statistics of governance and performance variables with to banks category.

Table 1: State Owned Banks

Descriptive Statistics					
Company Name		Average	Max	Min	Stdev
Bank of Punjab	Board Size	8	10	7	1.30
	No.of Meeting	10	13	4	3.36
	Size Of Audit	3	4	3	0.45
	Total Shares Held	528797376	528797376	528797376	0.00
	No.of Shareholders	19635.8	20641	18312	849.28
	ROE	-8.44	22.52	-61.13	34.24
	ROA	-0.13	0.64	-1.50	0.87
	Earning Per Shares (Million)	-8.39	3.09	-19.04	10.49648894
Khyber Bank	Board Size	7	8	6	0.71
	No.of Meeting	7	8	5	1.30
	Size Of Audit	4	5	4	0.55
	Total Shares Held	624918957	900262030	400406896	221571232.31
	No.of Shareholders	34804.2	36621	32560	1696.70
	ROE	3.88	10.00	-12.00	9.43
	ROA	0.48	1.30	-1.70	1.27
	Earning Per Shares (Million)	0.52	1.29	-1.27	1.08

The Pakistani banking sector had undergone phenomenon financial and structural reforms during the last two decades. The first phase of the financial sector reform was introduced in 1990 in which privatization was the main objective. During this reform from 1992-1996, state owned banks were partially privatized which later on were completely privatized in second phase reforms during 1997-2000. In Table 1, statistics show why state owned banks privatized. At this time there are only four state owned banks in Pakistan, but their efficiency and output is not satisfactory. The main reason behind this fact is simply bad governance. If we look at the return on equity of state owned banks it's even worse (Berger, Hasan, & Klapper, 2004; Bhattacharya, Lovell, & Sahay, 1997; Isik & Hassan, 2002). If they do not generate good profits they cannot survive in the market.

Table 1.1: Islamic Banks

Descriptive Statistics					
Company Name		Average	Max	Min	Stdev
Bank Islami	Board Size	8	10	7	1.30
	No.of Meeting	6	7	5	0.84
	Size Of Audit	3	5	3	0.89
	Total Shares Held	527967898	527967898	527967898	0.00
	No.of Shareholders	25936.6	27863	24386	1359.82
	ROE	1.14	8.29	-9.93	7.46
	ROA	-0.13	0.79	-1.84	1.05
	Earning Per Shares (Million)	0.12	0.78	-0.93	0.71
Meezan Bank	Board Size	10	11	9	0.84
	No.of Meeting	4	5	4	0.55
	Size Of Audit	3	3	3	0.00
	Total Shares Held	712443361	903367473	492596158	154463447.45
	No.of Shareholders	2022.6	2324	1821	191.78
	ROE	18.55	28.18	10.30	7.51
	ROA	1.27	1.90	0.82	0.43
	Earning Per Shares (Million)	2.50	3.88	1.22	1.23

In response to liberalization reforms in financial sectors, many new banks came into the industry with new developments and strategies. That made the financial sector more competitive and forced the existing players of the market to come up with new products and innovations. Evolution of Islamic banking in Pakistan is the result of this competitiveness. Due to the increasing trend of Islamic banking in Pakistan, some new investors encouraged and introduced specialized Islamic banks. These Islamic banks are yet to define the explicit difference between Islamic

and conventional banking, even though people showed positive attitudes toward them. In return, Islamic banks showed some satisfactory outcomes which are quite opposite to the state- owned banks. This is the strong evidence of good governance because in the Pakistani environment these banks are new and people don't have the clear vision of true Islamic banking. Despite the fact that Islamic banks market share is competitively low as compared to other conventional banks but for Islamic banking there is an opportunity of growth which is associated with true Islamic culture (Rosly & Abu Bakar, 2003; Yudistira, 2004).

Table 1.2: Private Banks

Descriptive Statistics					
Company Name		Average	Max	Min	Stdev
Allied Bank	Board Size	10	12	9	1.30
	No.of Meeting	8	10	6	1.82
	Size Of Audit	3	4	3	0.55
	Total Shares Held	6.34E+08	9.46E+08	86031092	326283093.58
	No.of Shareholders	20229	20810	19772	436.59
	ROE	0.28	0.31	0.21	0.04
	ROA	0.02	0.02	0.01	0.00
	Earning Per Shares (Million)	8.73	12.34	4.39	3.05
Askari Bank	Board Size	11	13	10	1.30
	No.of Meeting	10	13	4	3.65
	Size Of Audit	3	4	3	0.55
	Total Shares Held	6.15E+08	8.13E+08	4.06E+08	161082725.68
	No.of Shareholders	20756.8	22259	19231	1131.05
	ROE	6.67	9.64	3.06	2.43
	ROA	0.37	0.49	0.20	0.12
	Earning Per Shares (Million)	1.69	2.30	0.95	0.55
Bank-Alfalah	Board Size	11	13	9	1.58
	No.of Meeting	5	6	4	0.84
	Size Of Audit	4	6	4	0.89
	Total Shares Held	1.24E+09	1.35E+09	8E+08	245813747.85
	No.of Shareholders	20508.8	26856	16800	4252.53
	ROE	10.93	18.90	4.90	6.45
	ROA	0.51	0.91	0.24	0.32
	Earning Per Shares (Million)	1.76	3.38	0.71	1.19
Faysal Bank	Board Size	12	13	10	1.14
	No.of Meeting	5	6	4	0.84
	Size Of Audit	3	4	3	0.45
	Total Shares Held	7.24E+08	9.27E+08	5.3E+08	160030875.32
	No.of Shareholders	14856.2	17494	12947	2309.15
	ROE	4.57	10.57	0.80	4.80
	ROA	9.16	11.18	7.43	1.76
	Earning Per Shares (Million)	1.34	1.53	1.20	0.12
KASB	Board Size	12	14	9	2.07
	No.of Meeting	7	8	5	1.22
	Size Of Audit	4	4	3	0.55
	Total Shares Held	1.18E+09	1.95E+09	4.01E+08	729213059.04
	No.of Shareholders	11112.5	20343.5	8127	5176.31
	ROE	-63.81	-11.04	-110.02	38.67
	ROA	-3.65	-1.20	-7.10	2.37
	Earning Per Shares (Million)	-2.37	-0.55	-4.45	1.45
MCB	Board Size	13	15	12	1.30
	No.of Meeting	5	6	4	1.00
	Size Of Audit	5	6	4	0.84
	Total Shares Held	7.8E+08	9.2E+08	6.91E+08	98639767.37
	No.of Shareholders	42839.6	44131	41269	1356.06

Table 1.2 cont.

	ROE	27.21	31.49	25.07	2.53
	ROA	3.22	3.60	2.95	0.24
	Earning Per Shares (Million)	19.16	22.77	16.71	2.69
NIB Bank	Board Size	11	14	9	1.92
	No.of Meeting	6	7	5	1.00
	Size Of Audit	3	3	3	0.00
	Total Shares Held	6.31E+09	1.03E+10	2.84E+09	3680105988.39
	No.of Shareholders	29030.2	31993	27222	1946.82
	ROE	-21.22	1.66	-74.02	30.89
	ROA	-2.26	0.33	-6.15	2.81
	Earning Per Shares (Million)	-1.06	0.17	-2.63	1.39
Soneri Bank	Board Size	12	14	10	1.79
	No.of Meeting	8	9	6	1.30
	Size Of Audit	4	5	4	0.55
	Total Shares Held	6.84E+08	1E+09	4.11E+08	256573148.82
	No.of Shareholders	9829	10119	9598	213.85
	ROE	6.58	10.63	1.61	4.42
	ROA	0.52	0.89	0.12	0.36
	Earning Per Shares (Million)	0.84	1.70	0.17	0.63
Summit Bank	Board Size	11	13	10	1.30
	No.of Meeting	6	7	5	0.89
	Size Of Audit	3	3	3	0.00
	Total Shares Held	8.49E+08	1.08E+09	5E+08	246066335.41
	No.of Shareholders	47854.1	52288	37553.5	6044.55
	ROE	-50.80	-3.11	-94.38	39.12
	ROA	-2.93	-0.77	-5.41	2.32
	Earning Per Shares (Million)	-2.76	-0.38	-5.58	2.13
UBL	Board Size	12	14	10	1.58
	No.of Meeting	6	6	5	0.45
	Size Of Audit	4	4	4	0.00
	Total Shares Held	1.16E+09	1.22E+09	1.01E+09	95606083.36
	No.of Shareholders	27301	29307	24924	2004.74
	ROE	21.84	24.30	19.50	2.19
	ROA	1.80	2.20	1.50	0.33
	Earning Per Shares (Million)	10.60	14.71	8.24	2.93

The market share of private banks in the industry is considerably high. This is all because of liberalization and privatization reform introduced by the State Bank of Pakistan. Many players participated in this rapid growth and earned significant profits. But in a very short period of time, these banks realized the importance of corporate governance practice especially when they had competition with foreign banks. Table 1.2 shows a very satisfactory image of the private banks as compared to both state-owned and Islamic banks. Several researchers confirm this fact (Boubakri et al., 2005b; Boubakri, Cosset, & Guedhami, 2009; Clarke et al., 2005; Lin & Zhang, 2009). Several believe that the privatization improves the performance of a bank (Boubakri, Cosset, & Guedhami, 2005; Fries & Taci, 2005; Clarke et al., 2005; Beck, Cull, & Jerome, 2005; Bonin et al., 2005).

From the above mentioned descriptive results one can conclude that a bank, no matter if it is conventional or Islamic, has a large board size then its profit is better than a bank that has a small board size.

3.4 Estimation of Relationship Between Performance and Governance

Table 2 comprises our results of relationship between performance and governance ignoring the bank type.

Table 2

Correlations				
		Return on Equity in %	Board Size	Number of Meetings
Pearson Correlation	Return on Equity in %	1.00	0.37	-0.22
	Board Size	0.37	1.00	0.09
	Number of Meetings	-0.22	0.09	1.00
	Audit Committee size	0.24	0.18	0.00
Sig. (1-tailed)	Return on Equity in %	.	0.00**	0.03
	Board Size	0.00	.	0.24
	Number of Meetings	0.03	0.24	.
	Audit Committee size	0.02**	0.07	0.50

** Significant at alpha 5%

The findings of Table 2 suggest that governance does matter for bank performance which is in accordance with existing literature (Smith, 1996; Huson, 1997; Nesbitt, 1994; Carleton et al., 1998; Strickland et al., 1996). An interesting finding in Table 2 is that there is a negative correlation between the number of meetings and the return of equity (Vafeas, 1999) but has a positive relationship between board size. This is true in the sense that board meetings carry different costs like managerial time, travel expense, and meetings fees. In the case of board size it is very encouraging for external participants to become the part of the board and increase the firm performance (Weisbach, 1988; Byrd & Hickman, 1992; Brickley et al., 1994; Borokhovich et al., 1996; Cotter et al., 1997). Secondly we find positive correlation between audit committee and firm performance which is also theoretically true. Due to a strong audit committee, firms can achieve better performance (Belkhir, 2009; Vallelado et al., 2008; James, 1987; Xie et al., 2003; Lin, 2006; Klein, 2004).

3.5 Governance Influence on ROE, ROA, & EPS

Governance influence on performance (ROE, ROA, & EPS) has been tested through linear regression models as given below.

$$\begin{aligned} \text{ROE} &= \alpha + \beta_1 \text{BS} + \beta_2 \text{AC} + \beta_3 \text{NM} + \epsilon & \text{i} \\ \text{ROA} &= \alpha + \beta_1 \text{BS} + \beta_2 \text{AC} + \beta_3 \text{NM} + \epsilon & \text{ii} \\ \text{EPS} &= \alpha + \beta_1 \text{BS} + \beta_2 \text{AC} + \beta_3 \text{NM} + \epsilon & \text{iii} \end{aligned}$$

where:

ROE (Return on Equity), ROA (Return on Asset), EPS (Earning per share), BS (Board Size), AC (Audit Committee) and NM (Number of meetings)

3.6 Governance and Return on Equity

Table 3

Model Summary								
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson			
1 [*]	0.47	0.22	0.19	27.80	2.1			
ANOVA								
Model		Sum of Squares	df	Mean Square	F	Sig.		
1 [*]	Regression	15039.67	3	5013.22	6.48	0.00 ^{**}		
	Residual	51032.23	66	773.22				
	Total	66071.90	69					
Coefficients								
Model		Un-standardized Coefficients	Standardized Coefficients		T	Sig.	Collinearity Statistics	
			Std. Error	Beta			Tolerance	VIF
1 [*]	(Constant)	-62.05	23.59		-2.63	0.01		
	Board Size	6.46	2.01	0.35	3.21	0.00 ^{**}	0.96	1.04
	Number of Meetings	-3.59	1.55	-0.25	-2.32	0.02 ^{**}	0.99	1.01
	Audit Committee Size	7.02	4.38	0.18	1.60	0.11	0.97	1.03

* Model 1; ** significance at alpha 5%

The above stated findings revealed that there is a significance relationship between return on equity and corporate governance variables. The overall P value of the model is < 5% & 1% which shows that the overall model is significant (Smith, 1996; Huson, 1997; Nesbitt, 1994; Carleton et al., 1998; Strickland et al., 1996). P-value of board size and number of meetings < 5% show that both are significantly positively and negatively related to return on equity respectively (Alexander, Fennell, & Halpern, 1993; Goodstein, Gautam, & Boeker, 1994).

Table 3 cont.

Model Summary								
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate		Durbin-Watson		
2 [*]	0.39	0.15	0.12	2.90		1.95		
ANOVA								
Model		Sum of Squares	df	Mean Square	F	Sig.		
2 [*]	Regression	112.37	3	37.45	4.44	0.00 ^{**}		
	Residual	640.45	76	8.42				
	Total	752.83	79					
Coefficients								
Model		Un-standardized Coefficients	Standardized Coefficients		t	Sig.	Collinearity Statistics	
			Std. Error	Beta			Tolerance	VIF
2 [*]	(Constant)	-2.15	2.41		-0.89	0.37		
	BS	0.44	0.20	0.23	2.19	0.03 ^{**}	0.96	1.04
	NM	-0.37	0.14	-0.26	-2.53	0.01 ^{**}	0.99	1.00
	AS	0.41	0.44	0.10	0.92	0.35	0.96	1.04

* Model 2; ** significance at alpha 5%

The second model is also showing the expected results as corporate governance variables have influence on return on assets. Both board size and the number of meetings are significantly positively and negatively associated with return on asset respectively as P-value of both variables are < 5% (Mintz-berg, 1983; Pfeffer, 1972, 1973). R-Square value 0.12 and Durbin-Watson value 1.95 give more strength to the results in concluding that corporate governance variables have influence on return on asset.

Table 3 cont.

Table 3 cont.

Model Summary								
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate		Durbin-Watson		
3 [*]	0.46	0.21	0.18	6.67		2.05		
ANOVA								
Model		Sum of Squares	df	Mean Square	F	Sig.		
3 [*]	Regression	922.37	3	307.46	6.91	0.00 ^{**}		
	Residual	3294.07	74	44.51				
	Total	4216.44	77					
Coefficients								
Model		Un-standardized Coefficients	Standardized Coefficients		t	Sig.	Collinearity Statistics	
			Std. Error	Beta			Tolerance	VIF
3 [*]	(Constant)	-14.92	5.56		-2.68	0.01		
	BS	1.16	0.23	0.26	5.04	0.00 ^{**}	0.96	1.04
	NM	-0.54	0.25	-0.16	-2.14	0.02 ^{**}	1.00	1.00
	AS	0.35	0.40	0.31	0.88	0.30	0.96	1.04

* Model 3

Model 3 is also significant at 1% level of significance. It shows that corporate governance variables have significant influence on earning per share. As far as board size and the number of meetings are concerned the coefficients of both variables are also positively and negatively significant at 5% level of significance respectively similar to model 1 and 2.

4. CONCLUSION AND DISCUSSION

The primary contribution of this paper to the literature is to find a reverse relationship between board size and firm performance. For developed countries it is argued in various studies that a small board size is beneficial for firm performance. But in this study it is concluded that a large board size is good for firm performance in the context of under developing countries, like Pakistan (Finkelstein & Hambrick, 1996; Johnson, Daily, & Ellstrand, 1996; Zahra & Pearce, 1989).

Statistical results also supported our argument that a large board size accelerates the performance of the enterprises. It is very difficult to manage a large board in firms which causes delays in executing important decisions and creates hidden costs for firms but at the same time it is very beneficial for firm performance for countries like Pakistan in which Seith and Vehdra exploit the rights of minor shareholders. In a situation where board size is small, these Seith or Vehdra appoints their likeminded persons as director and abuse the rights of minor shareholders. This argument is supported by the results shown in the Table 1, which shows that banks having smaller board sizes have not performed as well as those banks that have large board sizes in the case of state owned banks. In the case of private banks they are quite smart as compared to the state-owned banks as they have larger board sizes and encourage transparency, innovation, and accountability to enhance their performance.

In concluding the argument, this study is idealizing the resource dependent theory that is a larger board size can enhance the performance of a company (Alexander, Fennell, & Halpern, 1993; Goodstein, Gautam, & Boeker, 1994; Mintz-berg, 1983; Pfeffer, 1972, 1973; Pfeffer & Salancik, 1978; Provan, 1980).

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