THE IMPACT OF CORPORATE ACCOUNTABILITY & TRANSPARENCY ON THE PERFORMANCE OF MANUFACTURING SECTOR FIRMS LISTED ON KSE

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ABSTRACT

Economic success of a country, if described in few words, is the success of big corporations of that country & vice versa. Corporate governance is thus economic governance in general. Some of the major corporate sc&als that stunned global economies & businesses followed by falling down of corporate giants like Enron, BCCI, Coloroll, Polly Pech, Barings, HIH Insurance& Parmalat resulted in tight regulations, codes, & principles of corporate governance. These sc&als erupted due to nonexistent of accountability & transparency principles of corporate governance within these companies as the management concealed important facts from the shareholders & that they were also not accountable for their actions.

This empirical research study intends to examine different characteristics of Corporate Governance & their impact on firm performance. These characteristics include Transparency & Accountability. Analyses were based on primary data which will be collected through questionnaire from 200 respondents. Correlation & Regression analysis were used to get results of the study. Results of the study revealed positive relationship between accountability & transparency with firm performance. The results showed that accountability &transparency have positive significant impact on the firm performance.

Keywords: Accountability, Transparency, firm performance, Regression, KSE

INTRODUCTION

Since last decade corporate governance is considered the major concern for almost all firm of all nature. As many reputed organization confronted several major sc&als due to bad governance, especially in the last decade so The firms like Enron, BCCI, Coloroll, Polly Pech, Barings, HIH Insurance, Parmalat suffered due to bad governance & lack of transparency in the system. Due to the fall of these firms tight corporate governance rules & principles were promulgated to avoid possible down fall of firms. Corporate governance play a key role as all stock holder & stack holders feel satisfaction that their capital is wisely&transparently managed. The need for corporate governance rose when the management & stockholder got disputed on the expansion of their businesses. Corporate governance provides rules & regulation for the business affairs improvement & giving value via accountability & transparency for the sack of all stockholders (Jenkinson & Mayer 1992). Corporate governance is, therefore, all about ensuring accountability & transparency while keeping effective means for information

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disclosure (Uwuigbe & Fakile, 2012). Corporate governance provides transparency & accountability & smooth up the firm performance with greater spirit.The firms of any country are considered the major part & parcel of the overall economy of that country. When these entire firms were administered &h&led in professional, transparent & accountable manner, then it causes the favorable boost for the investors' confidence & thus it impact the overall economy in favorable manner. Therefore, when these entities are transparent in their affairs of business & accountability prevails within these companies, there is every possibility that these organizations will flourish & resultantly the whole society will grow in positive direction.

The corporate governance variables, elements & compositions like board diversity, CEO duality, Board size , Board independence, managerial ownership, institutional ownership, audit committee independence, meeting frequency has been widely explored but the variables like accountability &transparency has not been investigated in Pakistani context & is remained Accountability &transparency are the two vital elements which develop the investors & other stack holders trust in the firms businesses. The word 'Transparency' has been derived from transparent. It means the quality of surface through which things are observed. Transparency here in corporate governance means the declaration of actual picture of the firm in manner of its operations to all its shareholders, investors &stockholders. All the shareholders & stack holders have the right to the full true disclosure of information. Corporate governance makes it sure that the business affairs of a company or for that matter the financial health of that company is the same as it is shown to outsiders or general public & nothing whatsoever is being concealed or covered up. Thus transparency is the basic ingredient & the most import characteristic of corporate governance whereby shareholders or the investors are confident regarding their money.Corporate governance truly relates to the inside controls of a company& such controls are equipped with accountability as well as transparency. Main focus of corporate accountability is the management of the companies including the board of directors who are entrusted with the responsibility of operating the business affairs of a company. Accountability reflects monitoring the work of the employees so as they are delivering for the best interest of the all shareholders, stock holders & investors (Keasey & Wright 1993). Accountability helps controlling the problem of agency as it make the managers accountable for their acts in the best interest of the firm. Pakistan is developing country & most firms do not exercise the accountability&transparency rules due to in active & poor laws. This research has analyzed the manufacturing sector firms listed on stock exchange.

Objectives of the study:

This study intends to empirically examine the relationship between corporate governance & firm performance for private & public sector companies. Accountability & Transparency have been considered as characteristics of corporate governance.

The following objectives were set for this study.

- To find the relationship of transparency& accountability with firm's performance.
- To investigate the impact of accountability & transparency on the performance of these selected firms.

LITERATURE REVIEW

For controlling, monitoring & evaluating the doing & actions of the managers & agents the practices of accountability is used to ensure that these managers truly work for the best interest of the stockholders & shareholders (Keasey & Wright 1993). Accountability means to be answerable to the higher authority in any set up (Kearns, 1996).

Corporate governance brings equilibrium in different type of goals i.e. economic goals, social goals, individual goals & community goals (&arajah, 2004). Accountabilitymakes efficient use of the resources & also makes responsible &accountable the individuals who so ever will use these resources. The objective here of the accountability is to entail welfare, wellbeing & interest of investor, shareholders, stakeholders, & thus provide the firm with the framework of accountability (&arajah, 2004, p.13). Corporate governance is all about the alignment of duties & responsibilities for better control & for the firm governance, following the organization procedures & rules for developing the culture of accountability which improve the financial performance of the firm. (Prowse, 1998). Corporate governance has been defined by various scholars with specific focus on accountability. Solomon (2004) arguedthat as" check & balance system which is internal as well as external in an firm & the objective of such system is to assure that corporations are acting in the best interest of their shareholders & stakeholders at large & that they are accountable to them as well as to the society at large & the same is depicted by their decisions & actions" (Solomon & Solomon, 2004, p.14).

Solomon & Solomon,(2004) argued that business should smoothly perform all of its activities for better achievements & responsible people should be make accountable so as to ensure better performance & greater results. As accountability of the individuals can make the framework of greater interest for the investors, shareholders, &stakeholders. The board is very vital as board can make the managers accountable to investors, shareholders &stack holders (Roberts et al. 2005).

Greater emphasize on corporate accountability, rules & regulations have been made by almost all countries to combat any misgovernance ,fraud & to protect the interest of shareholders, stakeholders & society at large. This practice helps improving theoverall economies (Cohen et al., 2002).

Transparency has positive & significant relationship with goods corporate governance practices (Gul & Leung, 2004). Corporate governance practices especially aims at ensuring the protection of the interest of all stakeholders are the transparency& accountability in the system. As true & correct sort of information is very vital. The providence of the true information help getting the trust of the investors & all other stakeholders (Ajinkya et al., 2005; Cormier et al., 2010; Dunstan, 2008; Gul & Leung, 2004). Corporate governance has different supporting elements & such elements focus on establishing accountability & transparency. These elements enforced with the help of suitable instruments of corporate governance (Shore & Wright 2004).

Corporate transparency has focus on the duties & functions of managers (Barrett 2002). Such functions & duties of the managers have key association with the performance. Thistransparency& accountability helps improving the all performance of the firms (Ingraham, Selden & Moynihan 2000). The transparent disclosure requirements are not only important for shareholders but also for the corporation as well for the purpose of its effective internal controls (Bushman & Smith 2001).

Transparency may be described as the disclosure instruments i.e. annual reports etc. that are simple & underst&able & that information made available in such reports is relevant & give complete information & does not include any such mis-declarations which have any adverse impact on performance of the companies (Braadbaart 2007).

Hypotheses:

The following hypotheses were developed for this research study.

H0: Transparency has no significant effect on the firm performance.

H1: Transparency has significant effect on the firm performance.

H0: Accountability has no significant on the firm performance.

H2: Accountability has significant on the firm performance.

METHODOLOGY OF THE RESEARCH

This research is an empirical study to determine the relationship between Corporate Governance attributes i.e. Accountability & Transparency & firm performance. The primary data was collected through questionnaire from top level & middle level managers of manufacturing sector firms listed on Karachi stock exchange. The population of the study was comprised of the employees of all manufacturing sector firms listed on Karachi stock exchange. R&om sampling techniques applied in this research paper. The data of Total 200 questionnaires included in this research paper& further put in SPSS for further data analysis.

Data Analysis:

Pearson Correlation:

In order to find out the relationship & strength of association among Accountability, Transparency & Firm Performance.

Statistical Tools:

The following statistical tools have been used for the purpose of analysis & conclusions will be drawn on the empirical results.

- Correlation Analysis
- Regression Analysis

	Accountability	**Transparency**	**Firm Performance**
Accountability	1.000		
Transparency	0.565**	1.000	
Firm performance	0.344**	0.372**	1.000

It was observed that there exist a significantly strong & positive correlation between Accountability &Firm Performance(r=0.344** P-Value<0.01). This shows that in case of organizations where Accountability prevails & is practiced by the management then such organizations are expected to perform well by showing better performance when compared with those organizations where Accountability is not being practiced.

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Multiple Regression Analysis:

Dependent variable: Firm performance:

Independent variables	T-value	P-value
Accountability	5.23	0.000
Transparency	5.78	0.000

R-square 0.56, F-value 54.34

As per results of the adjusted R-square in Multiple Regression Analysis it was observed that Accountability &Transparency show 56%ofthevariance or change in firm Performance. The t-value of accountability t=5.23 suggest that accountability has positive significance impact on the firm performance. The same positive significance impact is shown by the variable transparency. Its t – vale= 5.78 suggest that transparency has positive impact on the firm performance. The F- value = 54.34 suggest that the overall model is significant.

CONCLUSION

This empirical study revealed very strong significant relationship between Accountability, Transparency & Firm Performance. It was observed that those companies which are accountable & transparent in their business affairs, they perform better than those that have not any system of accountability & transparency. It was observed that almost all manufacturing firms have proper mechanism of Accountability &Transparency.

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