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- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
- Hunker, H.L. and A.J. Wright (1963), "Factors of Industrial Location in Ohio," Ohio State University.

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- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

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- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

CONFERENCE PAPERS

- Garg Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

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- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

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WEBSITE

- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Economic and Political Weekly, Viewed on July 05, 2011 http://epw.in/user/viewabstract.jsp

CORPORATE GOVERNANCE AND PERFORMANCE OF PAKISTANI LISTED COMPANIES (A CASE STUDY OF SUGAR SECTOR)

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ABSTRACT

This study intends to examine the link between Corporate Governance and corporate performance in sugar industry of Pakistan. A set of listed companies has been investigated to analyze the relationship for the financial year 2009. At the end, conclusion shows that better governed firms are relatively more profitable, more valuable, and pay out comparative extra dividend to their shareholders and most prominently ensure sustainability. In line with the studies of Gimpers, Ishii & Metrick (2003) and Brown & Caylor (2004) and international best practices in corporate governance, a Corporate Governance Index (CGI) has been created to measure the accessible level of corporate governance practices being followed by the listed companies in Pakistan.

KEYWORDS

Corporate Governance; Corporate Performance; Sugar Industry, Pakistan.

INTRODUCTION

Corporate Governance in terms of the "organization of the management and the control of a company aiming at balancing the interests between the involved stakeholders" (Witt, 2003) has attracted interest in theoretical as well as practical areas over the last years (Gillan, 2006; Benz & Frey, 2007). In addition to huge scandals such as Enron, Arthur Andersen or Parmalat, theoretical discussion about the validity of arguments (Lubatkin, 2007) or the sound theory applied (Zahra, 2007) have questioned the ubiquitous point of view.

La Porta, et al. (2000) Defined, "Corporate governance is, to a certain extent, a set of mechanisms through which outside investors protect themselves against expropriation by the insiders."

Corporate Governance developed as a way of ensuring that Owners of funds receive a return on their investment by protecting against management expropriation or use of the investment capital to finance pitiable projects. Specifically, corporate governance deals with the ways in which suppliers of equity finance to corporations assure themselves of getting a return on their investment in a ethical and bare way (Shleifer and Vishy 1997: 737). On the other hand, Hart (1995) suggests, necessitates the need for corporate governance for the inability to create perfect contracts. Corporate Governance issues arise wherever contracts are incomplete / immature and agency problems exist.

According to OECD "Corporate governance is only part of the larger economic context in which firms operate that includes, for example, macroeconomic policies and the degree of competition in product and factor markets. The corporate governance framework also depends on the legal, regulatory, and institutional environment. In addition, factors such as business ethics and corporate awareness of the environmental and societal interests of the communities in which a company operates can also have an impact on its reputation and its long-term success.

While a variety of factors affect the governance and decision making processes of firms, and are important to their long-term success, the Principles focus on governance problems that result from the separation of ownership and control. However, this is not simply an issue of the relationship between shareholders and management, although that is indeed the central element. In some jurisdictions, governance issues also arise from the power of certain controlling shareholders over minority shareholders. In other countries, employees have important legal rights irrespective of their ownership rights. The Principles therefore have to be complementary to a broader approach to the operation of checks and balances. Some of the other issues relevant to a company's decision making processes, such as environmental, anti-corruption or ethical concerns."

The code of corporate governance was initially introduced by Securities and Exchange Commission of Pakistan in early 2002 is the major step in corporate governance reforms in Pakistan. The major areas of enforcement include reforms of board of directors in order to make it accountable to all shareholders and better disclosure including improved internal and external audits for listed companies.

SUGAR PRODUCTION IN PAKISTAN

Sugarcane is an important industrial and cash crop in Pakistan. Pakistan is an important sugarcane producing country and is ranked fifth in terms of area under sugar cultivation, 60th in yield and 15th in sugar production. Sugarcane is grown on over a million hectares and provides the raw material for Pakistan's 84 sugar mills which comprise the country's second largest agro-industry after textiles. The sugar sector constitutes 4.2% of manufacturing. In size, the sugar sector matches the cement sector. Sugar industry has an indirect socio-economic impact in overall terms which is significantly larger than its direct contribution to GDP because of its backward (sugarcane growers) and forward linkages (food processors) in the economy.

The country's annual sugar consumption fluctuates between 3.6 to 4.2 million tons, but industry's officials say it has gone down since October 2009, because of higher prices and an economic slowdown that resulted in lower demand from industries such as drink producers. According to farmers association, the area under sugarcane cultivation has gone down slightly, but they are expecting better yield because of the better varieties of seeds. With this scenario, Pakistan has to import sugar which exposes it to the effects of shortage and rising prices in the world.

LITERATURE SURVEY

There are three main theories to explain corporate governance mechanism:

1. Agency theory
2. Stewardship theory
3. Resource dependence theory.

Agency theory has two main features, first, the effect of the board organization on firm's performance and second, the effect of board leadership structure (i.e., duality) on firm's performance (Nicholson & Kiel, 2007). Board of directors supervises primarily corporate operation as representative of Principal (Shareholders). However outside directors can supervise corporate managers to prevent them from pursuing their own interests as an effective check and balance system between principal and agent.

Stewardship theory considers managers as reliable, high-level executives who will not exhibit behaviors that would be unfavorable for shareholders, therefore inside directors can achieve better firm's performance and create more profit for shareholders.

Resource dependence theory suggests that board members have connections to important external resources and can maximize the firm's performance (Nicholson & Kiel, 2007).

The existing studies to find the relationship between corporate governance and firm performance elucidate totally outlandish results. One study shows that corporate governance having positive correlation with operating performance and preventing fraud (Yeh, Lee, and Ko, 2002). It is important to note that the issue has also been evidenced that the performance of a firm is directly related to good corporate governance. Corporations with better corporate governance have better operating performance than those companies with poor corporate governance (Black, Jang, and Kan, 2002) which was concurrent with the view that better governed firms might have more efficient operations, resulting in higher expected returns (Jensen and Meckling, 1976). It is also believed that good corporate governance helps to generate investor goodwill and confidence. Another study had demonstrated that the likelihood of bankruptcy is related to poor corporate governance characteristics (Daily and Dalton, 1994).

Baysinger & Butler (1985) and Rosenstein & Wyatt (1990) show that the market rewards firms for appointing independent / non-executive directors in board. Several studies in which financial statement data and Tobin's Q used, find no link between board independence and firm performance, while those using stock returns data or bond yield data find a positive correlation. The relation between the proportion of outside directors, a proxy for board independence, and firm performance is marvelously mixed.

However limiting board size is believed to improve firm performance because the benefits by larger boards increased monitoring are outweighed by the poorer communication and decision making of larger groups Lipton and Lorsch (1992); Jensen (1993). Consistent with this notion, Yermack (1996) documents an inverse relation between board size and profitability, asset utilization, and Tobin's Q.

Klein (2002) finds a negative relation between earnings management and audit committee independence, and Anderson et al. (2004) find that entirely independent audit committees have lower debt financing costs. Frankel, Johnson and Nelson (2002) show a negative relation between earnings management and auditor independence (based on audit versus non-audit fees), but Ashbaugh, Lafond and Mayhew (2003) and Larcker and Richardson (2004) dispute their evidence. Kinney, Palmrose and Scholz (2004) find no relation between earnings restatements and fees paid for financial information systems design and implementation or internal audit services, and Agrawal and Chadha (2005) find no relation between either audit committee independence or the extent auditors provide non-audit services with the probability a firm restates its earnings.

In order to ascertain which hypothesis should be tested in the Pakistani environment, a number of research papers were studied in detail to arrive at a hypothesis which could be tested on domestic companies. Gompers, Ishii and Metrick (2003) in their study of corporate governance and equity prices, created a 'Governance-Index' to ascertain the level of shareholders' rights in an entity. For this index, 24 corporate governance indexes divided into the following categories were used: Delaying hostile bidders, Voting rights, Director/Officer protection, Takeover defenses, and State Laws.

Brown and Caylor (2004) in their study on corporate governance and firm performance calculated a 'Gov-Score' comprising of 51 scoring factors. These governance factors were spread over the 8 categories: Audit, Board of Directors, Charter/Bylaws, Director Education, Executive & Director Compensation, Ownership, Progressive Practices, and State of Incorporation and calculated a Gov-Score for 2,327 firms and tested the association of these governance factors as against the performance of the firm. The performance measures used in this regard were: Return on Equity, Net Profit Margin, Sales Growth, Tobin's Q, Dividend Yield, and Share Repurchases. Their study concludes that good governance is related to good performance the vast majority of time.

Ghani and Ashraf (2005) examine corporate governance in Business groups operating in Pakistan and stated that business groups, as an organizational form, are more prone to expropriation of minority shareholders. These authors have examined three broad research questions related to business groups and minority shareholders expropriation in Pakistan.

- What are the key characteristics of business group firms that are different from those of non-business group firms?
- Are firms affiliated with business groups more profitable than unaffiliated firms?
- How does the stock market value group firms as compared to non-group firms?

HYPOTHESIS

H0: Strong Corporate Governance practices result in strong corporate performance.

H1: Strong Corporate Governance practices do not result in better corporate performance.

By utilizing the similar research already conducted by Gompers, Ishii and Metrick in 2003 and Brown, Caylor in 2004 and Mubbashir in 2009, I conducted similar research on Sugar Industry operating in the Pakistani environment.

METHODOLOGY

To test these hypotheses, a Corporate Governance Index (CGI) has been created to measure the level disclosures of corporate governance practices being followed by the listed companies in Pakistan. This index has been created in such a manner that a CGI score can be assigned to an entity based on the information which can be extracted from the annual reports of the company or from their corporate websites.

For the developments of the index, specifically with regards to the factors to be considered, assistance was taken from the Corporate Governance Survey carried out the JCR-VIS Credit Rating Company in March 2005. By increasing the factors taken in that survey trough review of international papers and other resources, a scoring mechanism better suited for the local environment was developed, which was used to assign a CGI score to the sample entities taken for hypothesis testing. The CGI constituted of the following areas:

1. Shareholders Rights (defined and protected)
2. Equity Structure
3. Board Composition
4. Transparency & Disclosure

The CGI comprised of 40 elements in total of which the four major areas constituted the bulk. Of these elements, 25% pertained to shareholders rights, 25% Equity structure, another 25% to Board Composition and last 25% were to Transparency and Disclosure.

The correlation of CGI with firm performance measures of the respective firms was computed to test the viability of the hypothesis.

The population was taken from Sugar Sector of Pakistan, listed in Karachi Stock Exchange (KSE), that is the biggest and most liquid exchange and has been declared as the "Best Performing Stock Market of the World for the year 2002". As on December 31, 2007, 654 companies were listed with the market capitalization of Rs. 4,329,909.79 billion (US $ 70.177) having listed capital of Rs. 671.269 billion (US $ 10.880 billion).

The sample size to test the hypothesis was taken only one sector of KSE. The reason for choosing a single sector as against samples from various sectors was that entities operating in a single sector would in general face similar opportunities and threats. Accordingly, testing them against CGI and its correlation with performance measures should apparently not give skewed results due to similarities in the working environment.

In the Pakistani economy some important sectors are financial, Sugar, energy, cement, fertilizer, telecommunication and textile sectors. Sugar sector has a considerable number of listed entities, 32; this whole sector was chosen to test the hypothesis. However, the actual sample size was reduced due to non-availability of the financial statements and website of four entities. Accordingly the sample size was reduced to 28 entities.

The selected sample from the Sugar companies listed on the KSE amounted to 28 companies. Sugar Industry is one the leading sector in Pakistan and considered the largest sector of Pakistan after textile sector. The country is passing through some very turbulent times. The global recession has a major impact on Pakistan's economy. In addition to terrorism threats and power shortages have been other major challenges of time. Therefore economic growth has remained muted in the 2009 and these were hard times being faced by world economies.

Financial data is taken of sample companies and their corporate governance disclosures from their annual reports for 2009 available on the website of Karachi Stock Exchange. The annual reports used for extraction of data was the last completed financial year i.e. FY2009. These reports were used to extract data both for creation of CGI and factors constituting firm performance. In addition certain data pertaining to share prices was extracted from the Karachi Stock Exchange website from historical data section.

Experts argue that the stock prices are related to governance practices. If their contentions are valid, a market premium should exist for relatively well-governed firms. Gompers et al. (2003), Bebchuk and Cohen (2004) and Bebchuk, Cohen and Ferrell (2004) show that firms with stronger stockholder rights have higher Tobin Q's (the same has been used in this analysis to measure valuation).

Arnott and Asness (2003) find that firms with relatively smaller dividend payouts have relatively lower earnings growth, suggesting that better-governed firms pay out more cash to shareholders, the third measure for firm performance in this analysis.

The correlation of CGI with firm performance measures of the respective firms was computed to test the viability of the hypothesis. The firm performance was measured using almost similar factors as used by Brown and Caylor in 2004, spread across three categories: operating performance, valuation and shareholder payout.

Similar measures (return on equity, profit margin and sales growth) have also been used by Gompers, Ishii and Metrick (2003). They had also used Tobin's Q to measure firm's valuation, as had previously been considered by others (e.g., Demsetz and Lehn (1985); Morck, Shleifer and Vishny 1988; Bebchuk and Cohen (2003); Bebchuk, Cohen and Ferrell (2004)). The measure of shareholder payout (dividend yield) has previously also been used by Fenn and Liang (2001) and Dittmar (2000).

The following performance measures are used in this analysis:

OPERATING PERFORMANCE

$$Retun\ on\ Equity = \frac{Net\ Profit\ Generated\ During\ the\ Year}{Average\ Equity\ of\ the\ Firm\ at\ Year\ End}\%$$

$$Net\ Profit\ Margin = \frac{Net\ Profit\ Generated\ During\ the\ Year}{Total\ Revenue\ of\ the\ Firm\ at\ Year\ End}\%$$

$$Sales\ Growth = \frac{Current\ Year's\ Total\ Revenue - Last\ Year's\ Total\ Revenue}{Last\ Year's\ Total\ Revenue}\%$$

VALUATION

$$Tobin's\ Q = \frac{(Total\ Assets + (Share\ Price * Share\ Issued) - Total\ Equity - Deferred\ Taxes}{Total\ Taxes}\%$$

$$Dividend\ Yield = \frac{Dividend\ per\ Share\ Declared\ for\ the\ Year}{Market\ Value\ of\ Share}\%$$

Three types of cross-sectional analyses are performed, similar to Brown and Caylor (2004). I first correlate CGI Score with each variable using Pearson correlation. To assess which categories and factors are associated with good or bad performance, I secondly correlate the four performance measures with the four governance categories using Pearson correlation and lastly all the 40 factors are correlated with the five performance measures using Pearson correlation."

DATA ANALYSIS & EMPIRICAL FINDINGS

The score index (CGI) which had 40 elements could result in a maximum score of 100.00 as 100%. However, in terms of the actual score achieved, the overall results were not too good with a minimum score of only 41.5 and a maximum of 64, which results in a mean value of 52.38 (that in percentage terms is only a score of 52%), range is 22.5, and Mean deviation is 4.5804 and a standard deviation of 5.65.

The total CGI score of each company in descending order is displayed in the table below: There are only three companies which scored more than 60% being Faran Sugar Mills Limited, Tandlianwala Sugar Mills Limited and JDW Sugar Mills Limited.

However, Chashma Sugar Mills Limited got the lowest score (CGI=41.5). This clearly depicting that on an average the corporate governance disclosure by sugar sector is not of high quality. The areas scored through the CGI were:

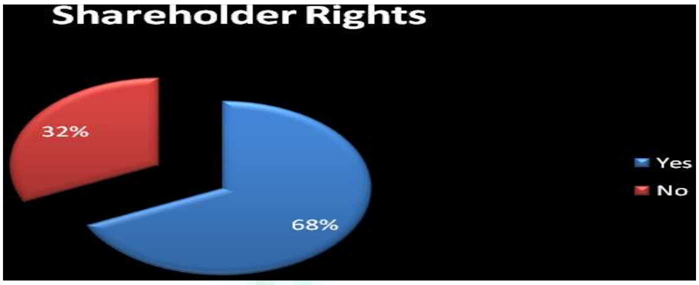
- Shareholders Rights
- Equity Structure
- Board Composition
- Transparency & Disclosure

TABLE 1: CGI SCORE OF COMPANIES IN ASCENDING ORDER

No.	Company	Total Score	Score Gained from			
			Shareholders Rights	Equity Structure	Board Composition	Transparency & Disclosure
1.	Faran Sugar Mills Limited	64.0	20.0	7.5	16.5	20
2.	Tandlianwala Sugar Mills Limited	62.5	20.0	10.0	15.0	18
3.	J. D. W. Sugar Mills Limited	61.0	20.0	7.5	13.5	20
4.	Mirza Sugar Mills Limited	59.0	20.0	12.5	9.0	18
5.	Shahtaj Sugar Mills Limited	59.0	20.0	7.5	14.0	18
6.	Haseeb Waqas Sugar Mills Limited	57.0	20.0	7.5	12.0	18
7.	Habib Sugar Mills Limited	56.5	15.0	7.5	14.0	20
8.	Mehran Sugar Mills Limited	56.5	20.0	5.0	11.5	20
9.	The Thal Industries Corporation Ltd.	55.0	15.0	11.0	9.0	20
10.	AL-Abbas Sugar Mills Limited	54.0	17.5	7.5	14.0	15
11.	Ansari Sugar Mills Limited	54.0	15.0	7.5	11.5	20
12.	Premier Sugar Mills	54.0	15.0	5.0	14.0	20
13.	Frontier Sugar Mills Limited	52.5	15.0	7.5	10.0	20
14.	Fecto Sugar Mills Limited	51.5	15.0	7.5	9.0	20
15.	Kohinoor Sugar Mills Limited	51.5	17.5	7.5	6.5	20
16.	Sakrand Sugar Mills Limited	51.0	17.5	7.5	8.5	18
17.	Noon Sugar Mills Limited	50.0	17.5	5.0	7.5	20
18.	Colony Sugar Mills	49.5	15.0	0.0	17	18
19.	Abdullah Shah Ghazi Sugar Mills Ltd.	49.0	15.0	5.0	9.0	20
20.	Adam Sugar Mills Limited	49.0	17.5	7.5	6.5	18
21.	Pangrio Sugar Mills Limited	49.0	15.0	7.5	9.0	18
22.	Al-Noor Sugar Mills Limited	48.5	20.0	2.5	6.0	20
23.	Crescent Sugar Mills Limited	48.5	15.0	5.0	13.5	15
24.	Hussein Sugar Mills Limited	47.5	15.0	5.0	7.5	20
25.	Bawany Sugar Mills Limited	46.5	15.0	7.5	6.5	18
26.	Dewan Sugar Mills Limited	44.5	15.0	2.5	7.0	20
27.	Baba Farid Sugar Mills Limited	44.0	15.0	5.0	9.0	15
28.	Chashma Sugar Mills Limited	41.5	15.0	5.0	4.0	18

In first section there was 10 specific elements regarding Shareholders rights and their implementation and each element was allotted 2.5 score.

FIGURE 1: SHARE HOLDERS RIGHTS - DEFINED AND PROTECTED



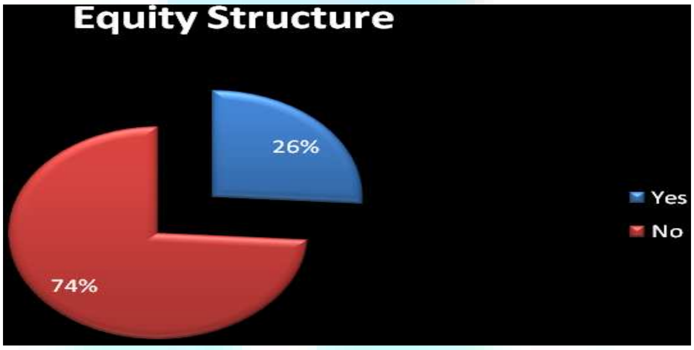
In Pakistan basic shareholders rights are protected by regulatory authority. The following basic shareholders rights and strongly observed in Pakistan (Reported by World Bank Survey 2005)

1. Secure method of ownership registration
2. Convey or Transfer of shares
3. Obtain relevant and material company information on a timely and regular basis
4. Participate and vote in general shareholder meetings
5. Elect and remove board members
6. Share in profits of the corporation

Registration is secured and in the process of being dematerialized through the CDC. Shareholders can demand a variety of information from company directly and have a clear right to participate in the annual general meeting of shareholders (AGM). Directors are elected by shareholders voting and can be removed through shareholders' resolution anytime. Change to company's basic documents like article of association, increasing authorized capital and sale of major corporate assets all require shareholder consent.

Due to strong application of shareholders rights and their protection in Pakistan the scoring in first section i.e 'YES' score was 68% that is second largest after transparency and disclosure.

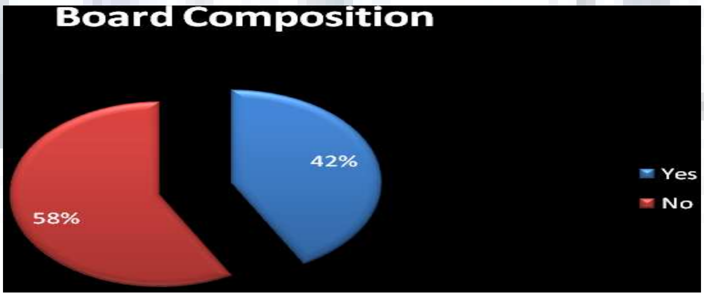
FIGURE 2: EQUITY STRUCTURE



The lowest scored area was related to the equity structure in public listed company that was 26%. Ownership is concentrated in Pakistan; principal controlling shareholders are State, Families and foreign multinational companies. Families make extensive use of pyramiding to maintain control over their business groups. This ownership structure combined with high thresholds to initiate corporate actions, having limited effective protection of external investors and minority shareholders.

Historically the role of institutional investors has been limited, despite the fact that government owned investment funds were often represented on the boards of their portfolio companies but from last 5 years the role of institutional investor is mounting and has been observed an optimistic indication.

FIGURE 3: BOARD COMPOSITION

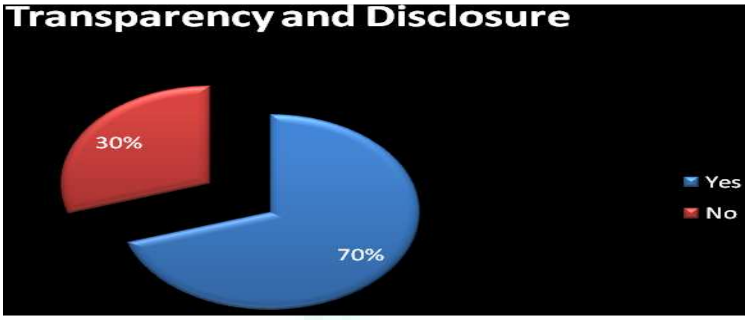


In business groups, broads are dominated by executive and non-executive members of the controlling families and by proxy directors appointed to act on their behalf. Inter-locking directorship is often used to retain majority control. Family dominated boards are less able to protect minority shareholders, and risk a loss of competitiveness as other boards become more professional.

One of the objectives of the Code is to revitalize the role of boards in the governance of firms. The Code strengthens the role of non-executive directors, restricting the percentage of executive directors to 75 percent in non-financial firms and recommending that institutional investors be represented.

In this section, comprising of 10 specific elements, the consolidated average 'YES' score was 42%.

FIGURE 4: TRANSPARENCY AND DISCLOSURE



Transparency and Disclosure section gained highest score and gained "70". It is generally agreed that the quality and timeliness of financial disclosure has improved over the past few years. This is in part attributed to the increasing monitoring role of the SECP and to the requirements of the new Code. Law and regulation require the disclosure of most non-financial items recommended by the OECD Principles. Stated Bank of Pakistan (SBP) mandates comprehensive disclosure for banks and Development Financial Institutions.

Shareholders owning 10% or more of voting shares must disclose their ownership and the annual report includes the pattern of major shareholders. Pakistan follows IAS 24 and there is general agreement that actual disclosure of related party transactions leaves much to be desired. The SECP issued a specific guideline to have more information on related party transactions. The disclosure about remuneration of chief executive and other executives and the board is mandatory separately.

The data with regards to firm performance of the sample firms has had varied results. Five (5) companies in the sample having negative equity, due to accumulated loss in previous year their equity and reserve sections was showing negative results. Of the remaining 23 companies, 21 had made profits and their returns ranged between 1–64% with five companies having returns on equity in double figures.

TABLE 2: RETURN ON EQUITY

CGI	Company Name	ROE (%)
64.0	Faran Sugar Mills Limited	19.16
62.5	Tandlianwala Sugar Mills Limited	3.05
61.0	J. D. W. Sugar Mills Limited	27.03
59.0	Mirza Sugar Mills Limited	25.48
59.0	Shahtaj Sugar Mills Limited	3.19
57.0	Haseeb Waqas Sugar Mills Limited	15.07
56.5	Habib Sugar Mills Limited	24.62
56.5	Mehran Sugar Mills Limited	52.72
55.0	The Thal Industries Corporation Limited	37.59
54.0	AL-Abbas Sugar Mills Limited	25.0
54.0	Ansari Sugar Mills Limited	12.0
54.0	Premier Sugar Mills	36.58
52.5	Frontier Sugar Mills Limited	19.96
51.5	Fecto Sugar Mills Limited	-13.36
51.5	Kohinoor Sugar Mills Limited	51.75
51.0	Sakrand Sugar Mills Limited	60.29
50.0	Noon Sugar Mills Limited	5.49
49.5	Colony Sugar Mills	23.05
49.0	Abdullah Shah Ghazi Sugar Mills Limited	64.23
49.0	Adam Sugar Mills Limited	26.0
49.0	Pangrio Sugar Mills Limited	-31.68
48.5	Al-Noor Sugar Mills Limited	14.0
48.5	Crescent Sugar Mills Limited	-12.67
47.5	Hussein Sugar Mills Limited	-24.71
46.5	Bawany Sugar Mills Limited	-15.74
44.5	Dewan Sugar Mills Limited	-24.22
44.0	Baba Farid Sugar Mills Limited	-46.0
41.5	Chashma Sugar Mills Limited	0.82

Twenty One (21) of the Twenty eight (28) sample companies were in profit and the net profit margins of these 21 companies ranged between 1–43%. Ten of the sample companies managed to attain a net profit margin in double digits thirteen (13) companies earn profit in one digit.

TABLE 3: NET PROFIT MARGIN

CGI	Company Name	Net Profit Margin (%)
64.0	Faran Sugar Mills Limited	30.96
62.5	Tandlianwala Sugar Mills Limited	0.65
61.0	J. D. W. Sugar Mills Limited	6.63
59.0	Mirza Sugar Mills Limited	24.96
59.0	Shahtaj Sugar Mills Limited	1.77
57.0	Haseeb Waqas Sugar Mills Limited	3.54
56.5	Habib Sugar Mills Limited	12.48
56.5	Mehran Sugar Mills Limited	6.53
55.0	The Thal Industries Corporation Limited	5.15
54.0	AL-Abbas Sugar Mills Limited	6.78
54.0	Ansari Sugar Mills Limited	40.67
54.0	Premier Sugar Mills	42.88
52.5	Frontier Sugar Mills Limited	10.68
51.5	Fecto Sugar Mills Limited	-6.58
51.5	Kohinoor Sugar Mills Limited	0.90
51.0	Sakrand Sugar Mills Limited	28.39
50.0	Noon Sugar Mills Limited	8.76
49.5	Colony Sugar Mills	7.71
49.0	Abdullah Shah Ghazi Sugar Mills Limited	11.85
49.0	Adam Sugar Mills Limited	4.19
49.0	Pangrio Sugar Mills Limited	31.81
48.5	Al-Noor Sugar Mills Limited	2.82
48.5	Crescent Sugar Mills Limited	-6.81
47.5	Hussein Sugar Mills Limited	-5.07
46.5	Bawany Sugar Mills Limited	38.50
44.5	Dewan Sugar Mills Limited	-9.58
44.0	Baba Farid Sugar Mills Limited	-18.28
41.5	Chashma Sugar Mills Limited	3.50

In the long run frame, a company can show good performance if it has a steady sales growth as this helps it in enhancing its market positioning amongst other factors. As FY2009 was not a good year for the economy due to energy crises in Pakistan, natural disaster and terrorist activities but sugar sector showing growth in sales.

TABLE 4: SALES GROWTH

CGI	Company Name	Sales Growth (%)
64.0	Faran Sugar Mills Limited	64%
62.5	Tandlianwala Sugar Mills Limited	145%
61.0	J. D. W. Sugar Mills Limited	-13%
59.0	Mirza Sugar Mills Limited	4%
59.0	Shahtaj Sugar Mills Limited	42%
57.0	Haseeb Waqas Sugar Mills Limited	3%
56.5	Habib Sugar Mills Limited	7%
56.5	Mehran Sugar Mills Limited	87%
55.0	The Thal Industries Corporation Limited	3%
54.0	AL-Abbas Sugar Mills Limited	4%
54.0	Ansari Sugar Mills Limited	-0.15%
54.0	Premier Sugar Mills	5%
52.5	Frontier Sugar Mills Limited	15%
51.5	Fecto Sugar Mills Limited	19%
51.5	Kohinoor Sugar Mills Limited	45%
51.0	Sakrand Sugar Mills Limited	8%
50.0	Noon Sugar Mills Limited	15%
49.5	Colony Sugar Mills	7%
49.0	Abdullah Shah Ghazi Sugar Mills Limited	102%
49.0	Adam Sugar Mills Limited	62%
49.0	Pangrio Sugar Mills Limited	-8%
48.5	Al-Noor Sugar Mills Limited	39%
48.5	Crescent Sugar Mills Limited	-2%
47.5	Hussein Sugar Mills Limited	-11%
46.5	Bawany Sugar Mills Limited	2%
44.5	Dewan Sugar Mills Limited	-47%
44.0	Baba Farid Sugar Mills Limited	-50%
41.5	Chashma Sugar Mills Limited	-1%

TABLE 5: TOBIN'S Q

CGI	Company Name	Tobin Q (%)
64.0	Faran Sugar Mills Limited	625
62.5	Tandlianwala Sugar Mills Limited	153
61.0	J. D. W. Sugar Mills Limited	1285
59.0	Mirza Sugar Mills Limited	909
59.0	Shahtaj Sugar Mills Limited	863
57.0	Haseeb Waqas Sugar Mills Limited	976
56.5	Habib Sugar Mills Limited	708
56.5	Mehran Sugar Mills Limited	2819
55.0	The Thal Industries Corporation Limited	314
54.0	AL-Abbas Sugar Mills Limited	713
54.0	Ansari Sugar Mills Limited	630
54.0	Premier Sugar Mills	929
52.5	Frontier Sugar Mills Limited	1087
51.5	Fecto Sugar Mills Limited	1600
51.5	Kohinoor Sugar Mills Limited	1156
51.0	Sakrand Sugar Mills Limited	1668
50.0	Noon Sugar Mills Limited	1002
49.5	Colony Sugar Mills	297
49.0	Abdullah Shah Ghazi Sugar Mills Limited	912
49.0	Adam Sugar Mills Limited	423
49.0	Pangrio Sugar Mills Limited	358
48.5	Al-Noor Sugar Mills Limited	791
48.5	Crescent Sugar Mills Limited	190
47.5	Hussein Sugar Mills Limited	1075
46.5	Bawany Sugar Mills Limited	285
44.5	Dewan Sugar Mills Limited	665
44.0	Baba Farid Sugar Mills Limited	1309
41.5	Chashma Sugar Mills Limited	777

The Tobin's Q ratio compares the market value of a company against the company's assets. A higher ratio indicates that the market value of the company is greater than that of its assets while a ratio of less than one indicates that the market value is less than the value of the company's assets. In the sample 28 companies, all had a positive ratio.

TABLE 6: DIVIDEND YIELD

CGI	Company Name	Dividend Yield (%)
64.0	Faran Sugar Mills Limited	57
62.5	Tandlianwala Sugar Mills Limited	0
61.0	J. D. W. Sugar Mills Limited	127
59.0	Mirza Sugar Mills Limited	81
59.0	Shahtaj Sugar Mills Limited	121
57.0	Haseeb Waqas Sugar Mills Limited	0
56.5	Habib Sugar Mills Limited	155
56.5	Mehran Sugar Mills Limited	64
55.0	The Thal Industries Corporation Limited	170
54.0	AL-Abbas Sugar Mills Limited	194
54.0	Ansari Sugar Mills Limited	0
54.0	Premier Sugar Mills	0
52.5	Frontier Sugar Mills Limited	147
51.5	Fecto Sugar Mills Limited	0
51.5	Kohinoor Sugar Mills Limited	134
51.0	Sakrand Sugar Mills Limited	161
50.0	Noon Sugar Mills Limited	80
49.5	Colony Sugar Mills	0
49.0	Abdullah Shah Ghazi Sugar Mills Limited	0
49.0	Adam Sugar Mills Limited	82
49.0	Pangrio Sugar Mills Limited	0
48.5	Al-Noor Sugar Mills Limited	18.07
48.5	Crescent Sugar Mills Limited	0
47.5	Hussein Sugar Mills Limited	0
46.5	Bawany Sugar Mills Limited	0
44.5	Dewan Sugar Mills Limited	0
44.0	Baba Farid Sugar Mills Limited	0
41.5	Chashma Sugar Mills Limited	0

The dividend yield ratio compares the latest dividend received with the current market value of the share as an indicator of the return being earned on the shares. With FY2009 being a year with negative sales growth in many sectors in general, the profitability position also suffered. Out of the 28 sample companies, Twelve (20) companies managed to improve upon their previous year's sales and accordingly 23 companies made profits with 5 making losses. This negative impact on the profitability leads to low dividend declaration in the sugar industries during FY2009, with only 14 companies announcing a dividend. Dividend ranged between Rs. 1.81 per share to Rs. 19.40 per share with Al-Abbas Sugar Mills Limited declaring the highest dividend.

I performed various cross-sectional analyses, similar to Brown and Caylor (2004). I first correlated CGI Score with each variable using Pearson correlations. The three variables under operating performance i.e. return on Equity, Net Profit Margin and Sales Growth has a positive association with CGI score. The strongest association amongst all factors is that of Sales growth with companies having a higher score 0.45.

In valuation, Tobin's Q, has very small association with the CGI score with a value of 0.08. This confirms the common perception prevalent in the country that good governance practices are not adding much to the value of a firm and listed concerns are only following the corporate governance regulations to conform with regulations and not for the betterment of the company in particular and the business segment in general.

Under shareholder payout, dividend Yield also has positive association with the CGI score. With FY2009, being a bad year for Pakistani economy, profitability levels are barely positive for a number of companies in the sector and accordingly, dividend payout was low resulting in a low dividend yield across the country.

CONCLUSION

The aim of this paper is to analyze the link between the corporate governance quality and performance of Pakistani listed firms.

I analyze the performance effects of corporate governance quality with reference to both valuation and operating performance. I prepare a Corporate Governance Index with the help of 40 indicators in for sectors of corporate governance (Shareholder Rights, Equity Structure, Board Composition and Transparency and Disclosure). I compare CGI with Operating performance and valuation and finds positive results.

The factor which was present in the annual reports of all the 28 companies was the presence of a Mission and Vision statement, Corporate Strategy Statement while those found completely lacking were: Profile of directors and length of their association with the company specially non executive directors, Board's governing principles, Scope of Board Committees, CEO's review in Annual report, Profiles of the Executive Management, and Executive Management Committees and their scope.

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