

Analyzing the Impact of Essential Elements of Corporate Governance on the Agency Cost. Does Corporate Governance Itself Plays A Mediating Role: Evidence from the Board of Directors of Higher Education Institutes of Karachi

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Abstract
It has been observed through the literature review of various researches, that there are various variables associated with corporate governance which have creatin Impact on the practices followed by the management in order to optimize the agency cost. As agency cost is the the determinat to judge the performance of the board of directors, hence it is a requirement of research which can evaluate the impact of these factors on the corporate governance as well as on the agency cost incurred in order to control and manage all the actiovties associated with the performance of the director or board of directors. In this research this requirement has been fulfilled by the ehlp of primary data, taken through the data taken by the authentic and recognized instruments used by the reputed researchers in their recent researches, and efter evaluating the data gathered through the questionnaire it has been found that the impact of all the determined independent variables is found to be significant on the corporate governance but the role of corporate governance in optimizing the agency cost is also a point of concenn as all the independent variables are affecting the agency cost through uusing the construct of corporate governance.
Keywords: Corporate Governance, Agency Cost, Board of Directors,

Introduction
The ample amount of research work exists associated with the topic of Corporate Governance **(Klapper. & Love., 2004)** Corporate Governance is included in the top most topics of interest associated with the business for private and public limited companies but also for governments and also for supranational unions. Moreover World Bank also considers the issue of Corporate Governance and linked it with several serious points of concern. **(Ben-Amar. & Boujenoui., 2007)**

"Corporate governance is, to a certain extent, a set of mechanisms through which outside investors protect themselves against expropriation by the insiders." **(La Porta., Lopez-De-Silances. & Shleifer., 2000)** While according to the agency theory Corporate Governance can simply be defined as the control of corporate must be separate from the ownership. **(Barle. & Means., 1932)** Latest research conducted in the year 2014 describes Corporate Governance as the sum of processes, policies, laws and institutions which are responsible for the behavior of the corporate, and due to this role the above mentioned variables are also responsible for the control of various operations of the corporate, **(Yegon., Sang. & Kirui., 2014)** existence of this mechanism is helpful in governing of business actives**. (Klapper. & Love., 2004)**

Corporate Governance also ensures the availability of arranged, organized and market instrument helps managers in increasing the value of organizational cash flows, on the behalf of the share holders. **(Denis., 2001)** Good Corporate Governance provides economic support to the systematic economic development of the country by increasing their level of performance and through increasing their admittance to outside capital from financial institutes and individual investors. Corporate Governance has also played significant role in emerging markets like China and India for development of public policy & also helps in attaining some other important objectives like it aids in decreases the probability of financial shocks in the country, helps in enhancement of property rights, diminishes the cost of transaction and also the requirement of capital cost and thus causes significant increase the capital market. **(Inam. & Mukhtar., 2014)**

While the sudden and amazing failures of Enron, Tyco, WorldCom & Global Crossing in United States of America, APP in Asia, Parmalat in Italy and HIH in Australia are some of the key reasons for the increase of interest in the study of Corporate Governance. **(Anadarajah., 2004)** Moreover research also clarifies the purpose of Corporate Governance that it works for the achievement of the corporate goal, and also responsible for the management of effective relationship with various stake holders which includes board of directors as well as share holders. In addition to all these benefits Corporate Governance is also beneficial for the development of country's economy. **(Yegon., Sang. & Kirui., 2014)**

The theory of Corporate Governance proposed that the existence of tension between managers of the corporate and its share holders is one of the basic elements **(Berle. & Means., 1932 & Jensen. & Meckling., 1976)** Research work has also highlighted several ways in order which might be possible for creating issue between the share holder sand managers of the corporate, such as alignment of incentives, monitoring and incentives and these conflicts can be resolved or minimized through the use of incentives like stock options or other market based compensations. **(Fama. & Jensen., 1983 a)**

These findings of Fama. & Jensen was supported by the research of 1999 that firm's agency cost will be increased due to the weak structure of corporate governance as managers of these organizations pays more attention to their personal interest as compared to the firms benefit. **(Core et al., 1999)** While the other research conducted by Fama. & Jensen also highlighted that the monitoring of corporate performance by independent or engaged board of director enhances the probability that managers will perform best in the interest of the share holders. **(Fama. & Jensen., 1983)** As, CEO who is unable to perform in the desired pattern of share holders and could not fulfill their requirements, can be removed by share holder through the help of assigned board of directors. On the other hand firm which ignores the concept of maximization of share holder's value is also working under the threat of hostile takeover. **(Jensen. & Ruback., 1983)** The reason for this is that with the improvement of mechanism of Corporate Governance the required capital would be increased without considerable increase in the level of cost incurred. **(Shliefer. & Vishny., 1997)**

While in Asia the other reason for the increased focus towards the Corporate Governance is the prevailing financial crises in the continent since 1997. Issues of Corporate Governance are claimed and hypothesized by several authors like **Alba., Clasesssens and Djankov., (1998); Claessens., Djankov. and Lang., (2000) and Keong., 2002** and according to the findings of their research financial crises were caused by the lesser prudential controls and weekend structure of the financial markets. Literature review conducted in this regard is helpful in determining the strategic practices which might be fruitful and effective in taking strategic decisions in the effective manner. **(Klapper. & Love., 2004)**

Moreover research researchers like **Kaplan and Minton., (1994); Limpaphayom. and Connelly., (2004); Num. and Lum., (2005) and Claessens., Djankov. and Lang., (2000)** highlighted that Corporate Governance is the resultant of enhanced mechanism of internal control in association with implementation of better practices in the fields of accounting, disclosure and Standards of auditing. While the studies of **Limpaphayom. and Connelly. (2004) and Num. & Lum., (2005)** also underline the point that significance of corporate governance is also beneficial for the companies with respect to the enhancement of their credibility and also in terms of increase in the long term investments.

Pakistan is also included in those countries in which companies which are listed in Karachi Stock Exchange (***now a part of Pakistan Stock Exchange***) must follow the rules and restrictions highlighted by the code of Corporate Governance and if they are not following these guidelines, then must have some proper justifications and grounds for this noncompliance. **(Klapper. & Love., 2004)** Especially after the highlighted scandals of Mehran Bank and Cresent Bank, more and more companies listed in Karachi Stock Exchange (***now Pakistan Stock Exchange***) are following the code of corporate governance. **(Cheema., 2003)** While these practices are also followed by all the listed organizations operating in developed as well as in developing countries. **(Klapper. & Love., 2004)**

Some of the previous researches which are conducted in Pakistan for **e.g. Khalid and Hanif., (2005)** highlighted the overview of corporate governance by taking the reference of banking sector of Pakistan, but they also highlighted that the issue of corporate governance is relatively new in banking sector of Pakistan, therefore it is not possible to measure the extent of improvement in bank efficiency and reduction of defaults. As sixteen best guidelines for Corporate Governance Practices was published by SECP during early 2000 and also tried to engage all the listed business with Karachi Stock Exchange with these guidelines, though it is at the discretion of the company to adopt these guidelines or not. But in order to maintain the importance of these practices it is mandatory for each and every organization to judge their practices by comparing the m with these guidelines of SECP, by the end of each and every year. **(Iqbal., 2012)** This was the huge incentives, especially for large corporate as through the use of these practices then can enhance their reputation and probability for being treated as ethical and trustworthy organization. **(Yasser., Entbang. & Mansor., 2011)**

Theoretical Framework and Model Development: Prior research work conducted on the topic of Corporate Governance elaborated the phenomenon quite comprehensively **(for e.g. Chen. & Jaggi., 2000; Courtenay., 2006; Eng. & Mak., 2003; Forker., 1992 & Gul & Leung., 2004)** While according to these researchers variables contributed in this research are Ownership Structure, Board Composition and Board Leadership Structure While the research work conducted by **Yegon., Sang. & Kirnui., (2014)** enhanced the research model and indicated that Board size, Board Composition and Board Leadership are the sub-division of Corporate Structure and the consolidated variable must be constructed through the hybrid of all the three mentioned earlier, while CEO chair's Duality, & Remuneration Structure are also significant contributors in the field of study, while according to **Apadore. and Zainol., (2014)** Audit Quality is also a significant variable in the context of determinants of Corporate Governance.

Moreover the research of **Apadore. and Zainol., (2014)** also highlighted that the Board Size Firm size and Leverage are treated as the Control Variables, but according to the research of Cunha. and Mendes., (2017) disclosure financial determinants are also affecting directly on Corporate Governance. Hence the disclosure of fanatical characteristics of firm are treated as the independent variables, while the Non Financial variable i.e. Board Size is included in the research as the Control Variable through the reference of research work of **Apadore. and Zainol., (2014)**. While there is heap of research work available in order to illuminate the importance of disclosure of Financial Characteristics of the firm on the Corporate Governance for e.g. **Size of the Firm** by Ahmed. & Courtis., 1999; Ben-Amar. & Baujenouj., 2007; Bujaki. & McConomy., 2002; Chow & Wong-Boren., 1987; Eng. & Mak., 2003; Gul. & Lang., 2004 & Meek., Roberts. & Gray., 1995 **Leverage** by Ben-Amar. & Baujenouj., 2007; Bujaki. & McConomy., 2002 & Dechow, Hutton. & Sloan., 1996; **Growth Opportunities** by Ben-Amar. & Baujenouj., 2007; End. & Mak., 2003; Hossain., Ahmed. & Godfrey., 2005; Gaver. & Gaver., 1993 & Smith. & Watts., 1992 and **Firm's Performance** by Ben-Amar. & Baujenouj., 2007; Bujaki. & McConomy., 2002 & Collet. & Hrasky., 2005; Frankel., McNichols. & Wilson., 1995; & Lang. & Lundholm., 1993.

Hence after combining all the above mentioned researches we have developed significant and systematic research model for the analysis of various corporate governance practices on the performance of the firm and also upon the reduction of the agency cost.

Problem: As is has been indicated by the theory of Corporate Governance that there is always a state of tension between share holders of corporate and managers, responsible for managing its operations. **(Berle. & Means., 1932 & Jensen. & Meckling., 1976)** Moreover it has also been highlighted that, CEO who is unable to perform better i.e. in the favor of the share holders can be removed by share holders through the use of board of directors. **(Jensen. & Ruback., 1983)** As in modern environment it is the basic requirement that corporate must became able to generate required level of capital, without considerable enhancement in the cost structure. **(Shliefer. & Vishny., 1997)** But regardless of these facts it has been observed that larger slice of the world's best performing organizations are adhering to all the clauses of corporate governance in the desired manner. **(Laeeque., 2014)**

Limited research has been done in developed countries too, in the area of corporate governance. Furthermore, studies that have directly measured agency cost level and then determine factors that affect firm's agency costs are few in number. **(Yegon., Sang. & Kirui., 2014)** In addition to this there is also a lacking of sufficient experimental research, which can prove that whether there is a guarantee of enhancement in the level of corporate performance, through strict obedience of the codes of corporate governance. **(Gupta., Kennedy. & Weaver., 2009)**

Studies that have empirically examined the agency cost determinants and the influence of corporate governance on agency cost include, **Ang., Cole. & Lin., 2000** who have taken data from US non-listed companies, **Singh and Davidson (2003)** and Doukas, Kim and Pantzalis (2000) used a sample of large listed American firms, **Fleming., Heaney. & McCosker., (2005)** and **Henry., (2006)** in the context of Australia, in UK companies **Florackis and Ozkan (2004)** during the period 1999 to 2003 and **Doukas et al. (2005)**

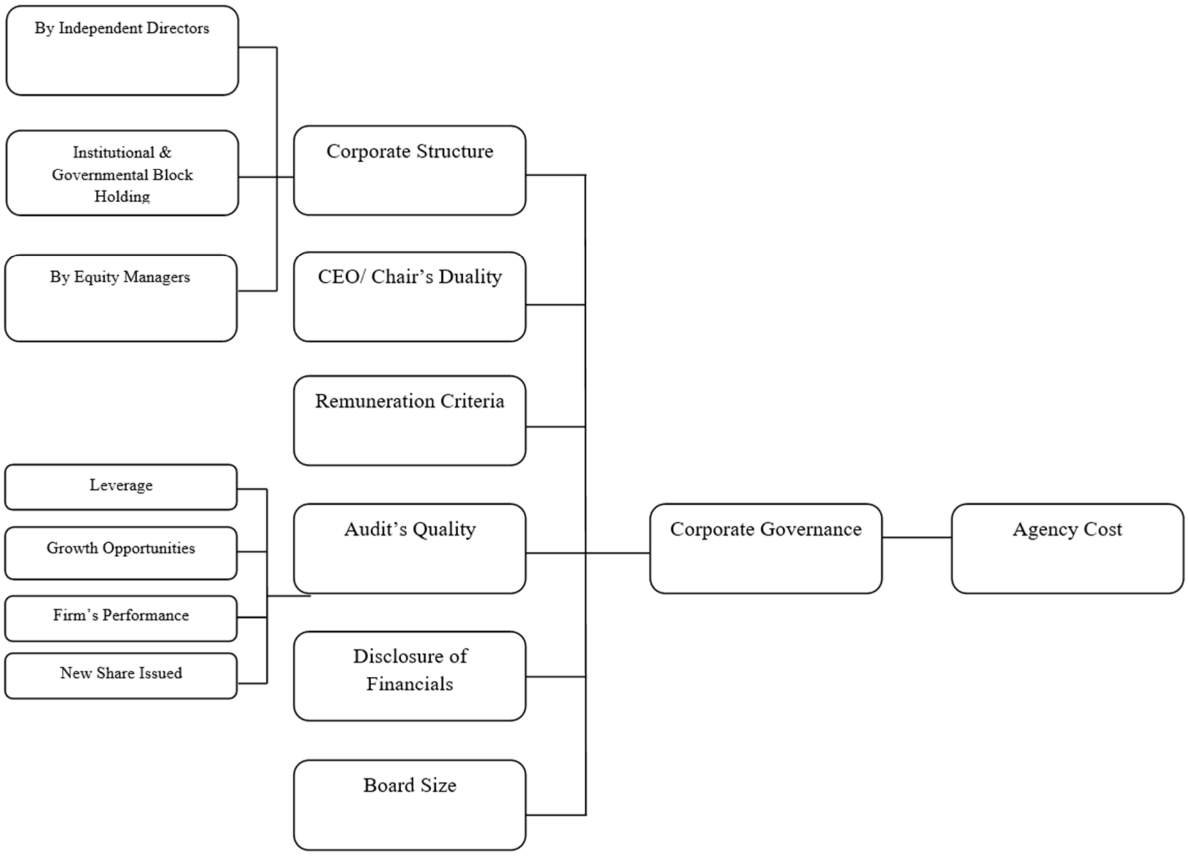
As developing economy governance practices are likely to be different from those of developed economies. According to **Carcello., Harmanson., Neal. & Riley., (2002)** and **Yatim., Kent. & Clarkson., (2006)** previous literature on corporate governance also argues that most of the work in this field has been done in developed countries and very little in developing countries, because their mechanisms of corporate governance is still evolving. **(Yegon., Sang. & Kirui., 2014)** This is found true at least for the territories of Pakistan; where there is a sufficient lacking of empirical evidence which explores the issues associated with corporate governance and establish mechanism that whether they are responsible for the increase of corporate performance or not. **(Hasan., & Butt., 2009)**

It is also highlighted through the prior research work that the concern of larger companies towards the compliance of corporate governance practices is found to more as compared to the smaller ones. The reason for that is that the larger companies have adequacy of resources which are required in order to obey these code of conduct. But it has been also found true that, some of the firms which are listed in Karachi Stock Exchange (now a apart of Pakistan Stock Exchange) are also listed in the Bombay Stock Exchange, hence they have the privilege to follow the practices of Corporate Governance followed in India, **(Laeeque.,2014)** which means that companies listed in the Karachi Stock Exchange (now a part of Pakistan Stock Exchange) are bound to follow the code of corporate governance through one channel or another. **(Hasan. & Butt., 2009)**

But this makes it unclear that what is the relationship between organizational performance and corporate governance practices, for the corporate working in Pakistan. **(Laeeque.,2014)** While the research work focused on relationship of Corporate Governance and performance of Karachi Stock Exchange listed Pakistani companies, makes this analysis even more difficult. As this study highlighted that, since the introduction of the mechanism of corporate governance by Security Exchange Commission of Pakistan (SECP) the focus of companies towards the obedience of code of corporate governance practices is continuously increasing, but the degree of association between the corporate governance and firm's performance is continuously decreasing. **(Laeeque., 2014)**

Hence it is fruitful to conduct research in this domain in order to clarify the importance and effect of various variables associated with corporate governance on the level of agency cost.

Research Model: The Research Model for this descriptive and detailed research has been developed through the use of mentioned in the theoretical frame work and the detailed model with the highlighted variables, is as under:



a) **The structure of Ownership**: Conflicts of Interest are the major determinant of the increase in the agency cost, and this is because of the separation of ownership of the organization with the controlling management. **(Ben-Amar. & Boujenoui., 2007)** This happens majorly when the managerial ownership is low and, share holders are investing some portion of corporate earning in order to monitor the controlling authorities of organization. Hence investment decision is one of the nonproductive one and thus raises the agency cost. **(Fama. & Jensen., 1983 and Hossain., Tan. & Adams., 1994)**

Moreover research also revealed that the impact of the disclosure of the information affect both closely held and widely held organization, but the extent of the impact is more on the widely held organization i.e. which has more shareholders as compared to the other organization. **(Ben-Amar. & Boujenoui., 2007)** Some of the researchers also indicated that Existence of large number of external block holders is the most potent variable which can influence the disclosure strategy of the organization, as they have the significant stake in the ownership of the corporate which allows them to conduct extensive research and reduces the agency cost through the effective monitoring of managers, which in turn decreases the demand of disclosure of corporate information. **(Yegon., Sang. & Kirui., 2014)** Hence structure of ownership has been divided into following sub-divisions

i. **Inclusion of Independent Directors:** Independent Directors are one of the most important variables in the development of the board of directors. This has been also highlighted through the several researchers who have conducted research in the field of corporate governance & according to these researchers; independent directors will work more in the favor of the share holders **(for e.g. Byrd. & Hickman., 1992; Brickely., Coles. & Terry., 1994; Westphal & Zaiac., 1995 & Borokkhovich et al., 1996)** When board has majority of independent non executive directors in the board then these

numbers formulated and increase the number of board's independence. **(Apadore. & Zainol., 2014)**
Independent Directors are one of the most important variables in the development of the borad of directors. This has been also highlighted through the several researchers who have conducted research in the field of corporate governance & according to these researchers; independent directors will work more in the favor of the share holders **(for e.g. Byrd. & Hickman., 1992; Brickely., 1994; Westphal & Zaiac., 1995 & Borokkhovich et al., 1996)** It has been also highlighted that inclusion of independent non executive directors does not only ensures the effective monitoring of financial performance but also helpful in providing assistance in the development of corporate strategy, management of risk and planning of remuneration. **(Kumar. & Singh., 2012)** While research conducted in the year 2003 and 2004 found similar sort of findings and indicated that the agency cost will be decreased when more independent directors are taken in the board of directors. **(Henry., 2004 & Yegon., Sang. & Kirui., 2014)**
On the other hand some researchers like **Hermalin. & Weisbach., (1991) & Agarwal. & Knoeber., (1996)** opposed the findings and indicated that agency cost is not reversely associated with the increase of independent directors in the board. While the findings of researches of early and mid nineties mentioned earlier are also supported by the research of **Ang., Cole. & Lin., (2000)** Research work of 2002 emphasized on the point that independence of the board is responsible for the increase of corporate governance and also the firms performance **(Klein., 2002)** researcher also quote reference of several other researchers in order to support his evidence **((or e.g. Brickely et al., 1994; Byrd. & Hickman., 1992; Weisbach., 1988)** while the report of 2009 indicated that independence of board in Hong Kong provides sound monitoring of firms earning, which emphasized on the issue that, regardless of the environment of the institute, quality of the financial reporting is associated with the independence of the board.
Research conducted in the year 2003 and 2004 found similar sort of findings and indicated that the agency cost will be decreased when more independent directors are taken in the board of directors. **(McKnight. & Mira., 2003 & Henry., 2004**) While some researchers like **Hermalin. & Weisbach., 1991 & Agarwal. & Knoeber., (1996)** opposed the findings and indicated that agency cost is not reversely associated with the increase of independent directors in the board. While the findings of researches of early and mid ninties mentioned earlier are also supported by the research of 2000, conducted by Ang etal.

ii. **Institutional & Government Block Holding:** As far as evidence of the variable is concerned research indicated mixed relationship between the ownership of external block holders and the disclosure of the information. As indicated by the research work conducted by **Schadewitz and Blevins., (1998)** that there is a negative relationship between the disclosure and institutional ownership of the corporate. While the research work of **Eng & Mak., (2003)** indicated that there is positive association between the, governmental stock holding and the chance of disclosure of the corporate information.

iii. **Governance by Equity Managers:** Research associated with accounting indicating that there is reverse relationship between the level of disclosure and governance by the equity managers. **(Ben-Amar. & Boujenoui., 2007)** Similarly research conducted BY **Ruland., Tung. & George., (1990)** describes the negative association between level of concentration given by the share holders to the business and leakage of managerial forecasts, which was supported by the research of **Hossein. Tan. & Adams, (1994), explained that** the concentration of share holders is negatively linked with the deliberate disclosure of company's information in the annual report. Moreover latest research work of 2002 and 2003 conducted by **Chau & Gray (2002) and Eng & Mak (2003)** supported the findings of the previously mentioned researches and highlighted that the chances of deliberate disclosure are negatively associated with the managerial ownership of governance issues of corporation.

b) CEO/ Chair Duality: It is indicated by the literature of several researches that when the CEO and Chairperson are separate then it will be helpful in two ways i.e. it will increase firm's performance and will also decrease the cost of agency for the firm. **(Yegon., Sang. & Kirui., 2014)** This can more effectively defined as the "***The practice of one person serving both as a firm's CEO and board chair***" **(MOSCU, 2013)** more clearly duality is defined as the practice in which both the positions i.e. Chairman of the board and CEO are assigned to the same individual & this has been the topic which has been investigated more than any other topic in the area of corporate governance, as the most researchers, which is evident through the plenty of research since 1990 till date. **(Apadore. & Zainol., 2014)**

While major reasons for the preference of the topic are its impact of firms performance and the pronged nature of the designation. **(Krause. & Semadeni., 2013)** However the initiator's of agency theory suggested that if we want to decrease the agency cost through the use of effective Corporate Governance Practices we must not separate the leadership of the organization. **(Fama. & Jensen., 1983)**

But the latest research work in this regard proposed hat duality of CEO/ Chair duality is not responsible for the decrease in the agency cost. Research work conducted in United Kingdom supported the argument with numerous research work by taking the reference of the Public Listed Firms **Gul., Sajid., Razzaq. & Afzal., 2012; McKnight. & Mira., 2003 & McKnight. & Weir., 2008)**

Simialar findings arew also drawn from the research conducted in Pakistan which explained the phenomenon by taking the reference of 154 listed firms in Karachi Stock, highlighted that duality of CEO's chair affected the firm's performance and will decrease the level of firm's performance as it will weaken the control of the board on corporate decisions. **(Sheikh., Wang. & Khan., 2013)**

c) Rumination Structure: The structure of the remuneration can simply be defined as the sum of all type of remuneration, company pay to its board members. The common point of view we found through the review of literature that higher levels of remunerations of company's directors are inversely proportional to the agency cost, as higher levels of incentives, will increase the level of managers to work for the benefits for share holders as they want to increase their incentives and also want to make their jobs secure. **(Yegon., Sang. & Kirui., 2014).**

But when we examine the evidences found through the prior research work it has been indicated by the prior research of 2006 the predictions made by the researchers are not found coherent with the results. **(Henry., 2004)** As the research found that ratio indicating the asset utilization has not been increased with the ratio of remuneration of directors, which indicated that increase in the level of director's remuneration does not decrease the cost of agency. But on the other side of paradigm it has also been evident through the research that remuneration structures for the board of directors has a reverse relationship with the ratio of liquidity of assets, hence indicated that, remuneration structure has the positive relationship with the agency cost. **(Yegon., Sang. & Kirui., 2014)**

d) Audit's Quality: The research conduct in China in the year 2012 within the context of corporate governance highlighted that government increases the quality of the external audit, in order to increases performance of companies operating in China which also leads to better performance of government. **(Gao. & Kling., 2002)**

The research was carried out through the available data from the year 2001 to 2007 for the firms listed in Shenzhen Stock Exchange and the findings dint that when the corporate has to comply with the requirement of disclosure of information, their enhanced level of internal administration help them in developing positive e relationship with the disclosure of information **(Gao. & Kling., 2002)**

Research of 2012 also investigate the extent of relationship between corporate governance and internal audit and highlighted that there is significant relationship exists between these two variables. Moreover it has also been projected by the research that role of audit in the corporate governance is the variable which also increases the quality of internal audit. **(Sarens., Abdolmohammadi. & Lenz., 2012)**

These findings are also supported by the findings of **Hussin., Sansui., Sulong and McGowan. (2013),** which also highlighted that same through taking the reference of eighty two listed companies in the ACE market of Malaysia. While the research conducted in Malaysia indicated that there is a negative association between the quality of audit and performance of the company. **(Haat., Rehman. & Mahenthiran., 2008)**

While the research conducted to investigate the effect of audit type and performance of the firm, highlighted that, audit's type is the variable which does not have significant affect on the performance of the firm as operational decisions of any of the corporate cannot be affected by the external audit. **(Hassan, & Halbouni., 2013)**

e) Financial Characteristics of the firm and Corporate Disclosure: The literature associated with the field of accounting **e.g. Ahmed. & Courtis., (1999); Healy. & Palepu., (2001) and Meek., Roberts. & Gray., (1995)** also indicated that firmness of financials is also associated with the level of disclosure of information through firm's annual report. While some of the comprehensive research work like **Ben-Amar. & Baujenouj., (2007)** helped in development of literature and research model by explaining the relationship among Firm's Size, Leverage, Financial performance, Growth Opportunities, New Share issues Cross-Listing with the dependent variable i.e. Corporate Governance disclosure quality.

i. **Leverage**: There is high percentage of bankruptcy as well as violation of agreements of debts, when the firm is a highly leveraged firm. **(Dechow., Hutton. & Solan., 1996 & Bujaki. & McConomy., 2002)** Therefore level of disclosure of information associated with the Corporate Governance issues must be oh high priority and high concern must be render towards the issue in order to decrease the agency cost associated with the leverage. (**Cunha. & Mendes., 2017)**

The research conducted by **Ben-Amar. & Baujenouj., (2007),** suggested that researchers believe that ratio of financial leverage is positively associated with the ratio of disclosure associated with the quality of corporate governance practices. In fact, enhancement in the quality of disclosure of Corporate Governance Practices might also increase the level of confidence, investor has in the firm's ability to govern its working and thus also decrease the chances of bankruptcy of the firm.

These evidences was further supported by the research work conducted in the year 2002, which indicated that there is a positive linkage between the leverage of the firm and the adequacy, completeness and quality of the information associated with the Corporate Governance. **(Bujaki. & McConomy., 2002)** *ii.* **Growth Opportunities:** While analyzing the generic view of growth Opportunities, it has been found by the researchers that the growth opportunities are associated with the level of distortion in the information provided to the investors and hence also with the higher agency cost. **(Smith. & Watts., 1992 & Gaver. & Gaver., 1993)**

Therefore it is better for the corporate who are experiences better level of opportunities, that they must enhance their quality of disclosure, in order to reduce the asymmetry in the level of information provided to the external investors. (**Ben-Amar. & Baujenouj., 2007**)

This has also been supported by the research work of the year 2005 which indicated that there is a positive association between the growth opportunities of the corporate and the appropriate disclosure of the potential corporate future**. (Hossain et al., 2005)** While the research work conducted in the year 2003 does not report any positive relation between the variables i.e. Growth Opportunities and the disclosure of the Corporate Information**. (End. & Mak., 2003)**

iii. **Firm's Performance:** According to the initial research work conducted in the field of accounting indicated that there are mixed evidences associated with the performance of the firm and the quality of disclosure. **(Lang. & Lundholm., 1993)** When the corporate showing better level of performance, then the managers are lure with the improvement in the quality of corporate governance, in order to indicate that the mechanism of governance of the corporate is working effectively. (**Cunha. & Mendes., 2017)**

But when the firm is not showing better performance than the managers must increase the quality of Corporate Governance disclosure in order to indicate that the governance mechanism of the corporate is now working effectively and will help the corporate in overshadowing the past level of poor performance. (**Ben-Amar. & Baujenouj., 2007**) While the research of early two thousand's indicated that there is reverse relationship between the measurement of performance as the percentage of change in the revenue and quality of disclosure of corporate governance. (**Ben-Amar. & Baujenouj., 2007**)

Research work conducted in mid and late nineteen ninety also reported that, size of the firm is also one of the key determinant of the voluntary disclosure. **((Meek., Roberts. & Gray., 1995& Ahmed. & Courtis., 1999)** Larger companies are utilize better resources for the enhancement of quality of information they will route and the cost associated with the purpose is lesser as compared to the other firms because of the implications of economies of scale. **(Ben-Amar. & Baujenouj., 2007)**

Various researches like **Chow & Wong-Boren., (1987); Eng. & Mak., (2003) & Gul. & Lang., (2004)** continuously indicated that relationship between the size of the firm and voluntary disclosure of information is found to be positive. While the research work carried out in the year 2002 also supported the findings of the above mentioned researchers by taking the examples of the TSX listed companies. **(Bujaki. & McConomy.,2002)**

iv. **New Share Issue:** It has been indicated by the several researchers that company's willing to introduce new equity in the upcoming years, must try to focus upon their level of disclosure of information to the external investors, in order to reduce the asymmetry in the information, available to the external investors and also to decrease the cost of financing. **(Lang. & Landholm., 2000; Frankel., McNichols. & Wilson., 1995; Bujaki. & McConomy., 2002 & Collet. & Hrasky., 2005)**

Thus it has been suggested by the research that the listed companies, which= needs more investment from external investors, must increase the quality of disclosure in order to support the positive believes of the external investors regarding the mechanism of the corporate governance. Though the initial research work of the year 2002 does not report any positive relationship between the degrees of quality of information associated with the Corporate Governance Practices and the issue associated with the issues associated with firm's equity. **(Bujaki. & McConomy., 2002)** But the research of year 2005 clearly indicated that research conducted in the year 2005 highlighted that there is a positive relationship between the firm's practices associate with the voluntary disclosure of the corporate information and the willingness of the corporate managers to raise the level of firm's level of equity through the issuance of new shares. **(Collet. & Hrasky., 2005)**

Control Variables: As mentioned in the theoretical framework we have selected only one variable i.e. size of the board as the control variable, whose literature is as under:

Size of the Board: Size of the board is treated as the control variable **(Apadore. & Zainol., 2014)**, while according to the research board size is defined as the total numbers of which are included in the board **(Jaffery., Naveen. & Lalitha., 2008)** According to other research board of directors is the form of official and legal entity which is governing the company as the hybrid of executive and non executive directors**.** The job of executive directors is responsible to run the company's operations, while the non executive directors are responsible to monitor the progress of the company's operations. **(Apadore. & Zainol., 2014)**,

Research of 2006 highlighted that, size of the board is one of the prime factor in shaping the board's ability to perform its function. **(Jaffery., Naveen. & Lalitha., 2008)**In advancement of previous research, the research work carried out in the year 2012 highlighted that the existence of relationship between board of directors and Corporate Governance is negative in nature. **(Vintile. & Gherghina., 2012)**

While the other two researches of the same year also supports the findings of Vintile & Gherghina and indicated that there is a negative relationship between the board size and corporate governance. **(Shukeri Shin & Shaari., 2012. & Nakano. & Nguyen., 2012)** The initial research word explained the phenomenon by taking the reference of 1324 listed firms of Tokyo Stock Exchange with help of data of 2003 to 2007 and highlighted that lower level of corporate governance is the resultant of increased size of the board. **(Nakano. & Nguyen., 2012)** while the later one highlighted the same and support the findings of the initial one. **(Apadore. & Zainol., 2014)**

Research Methodology: It has been sub-divided into two categories i.e. Research Design and Sampling Design in order to provide more clear understanding to the readers and also to signify the proper use of scientific method for onducting research work.

Research Design

The purpose of research was descriptive in nature and the type of investigation was causal as all the variables and their sub-division are highlighted from the previous research work of the discipline of management, finance and accounts the nature of experiemnet was field experitment as we have consulte the board o directors of various higher educational institutes and universities through the help of close endd questionnaire at their location.

Hence the level of interference is moderate in nature and the time horizon which we have selected is snap shot study in orde to grasp the response from the members of board of directors of various higher educational institutes operating in Karachi.

Sampling Design

For conducting research the method of sampling we use is the quota sampling which is the ssub-divisoon of Non Probability sampling, and the basis ofor the selection of respondents were their inclusion in the board of directors of the higher education institute operating in Karachi. The sample size which we have selected is of 50 respondents. While these responses were collected through the help of a closd ended questionnaire based on the determinants of the corporate governance. Initially **100** questionnaires were circulated but out of them, only 60 were found properly filled, while araning these responses in SPSS files and MS Excel, it has been notified that 10 questionnaires are not filled with the due care and lack of information and incomplete answers were the main reason for their rejection.

Hence we have conducted the research on the data we have achieved through the help of **50** responses.

Questionnaire

The Questionnaire which we have developed was the hybrid of theoretical frame works and questions asked by reputed researchers and retrieved through the volumes of esteemd research journals, listed under the prestigious bodies like Scopous and Emerled. Say for e.g. **(Ali., Hussam. & Saleh., 2016; John., 2011 & Farhan., Obaid Annuar., 2017)**

Statistical Testing and Evaluations

Initially we check the reliability of the data we have in order to observe that, whether it is valid for further statistical testing or not, and after applying the statistical tool following results has been found:

Reliability Analysis – Cronbach's alpha							
Corporate Structure	**Remuneration Structure**	**CEO Duality**	**Audit Quality**	**Financial Characteristics**	**Board Size**	**Corporate Governance**	**Agency Cost**
0.721	0.854	0.785	0.694	0.824	0.766	0.747	0.813

Interpretations: The reasons for use of Cronbach's Alpha is this is treated as one of the most common measure for the testing of internal consistency i.e. "Reliabilty" of the data esoppecially when researcher is using multiple Likert Scale questions, in the instrument As the test has been implemented on the data gathered from sample of very specific population, therefore 0.6 lelve of reliability shall be treated as significant in this regard. Hence the data we have gathered is reliable, as all the variables are atleast more than the level of 0.6 for internal consistency.

Thwen we have used Factor Analysis in order to determine and indicate the correlation between the Factor and all the variables which are used in order to develop the composit.

Factor Analysis: Component Matrix

	Component							
	Corporate Structure	Remuneration Structure	CEO Duality	Audit Quality	Financial Characteristics	Boar d Size	Corporate Governance	Agency Cost
Corporate_Structure1	0.851							
Corporate_Structure2	0.863							
Corporate_Structure3	0.801							
Corporate_Structure4	0.764							
Corporate_Structure5	0.729							
Remuneration_Structure1		0.786						
Remuneration_Structure2		0.781						
Remuneration_Structure3		0.675						
Remuneration_Structure4		0.867						
Remuneration_Structure5		0.863						
CEO_Duality1			0.860					
CEO_Duality2			0.856					
CEO_Duality3			0.850					
CEO_Duality4			0.826					
CEO_Duality5			0.759					
Audit_Quality1				0.846				
Audit_Quality2				0.846				
Audit_Quality3				0.819				
Audit_Quality4				0.816				
Audit_Quality5				0.799				
Financial_Characteristics1					0.863			
Financial_Characteristics2					0.855			
Financial_Characteristics3					0.852			
Financial_Characteristics4					0.795			
Financial_Characteristics5					0.763			
Board_Size1						0.848		
Board_Size2						0.841		
Board_Size3						0.810		
Board_Size4						0.804		
Board_Size5						0.781		
Corporate_Governance1							0.832	
Corporate_Governance2							0.725	
Corporate_Governance3							0.658	
Corporate_Governance4							0.748	
Corporate_Governance5							0.779	
Agency_Cost1								0.811
Agency_Cost2								0.826
Agency_Cost3								0.792
Agency_Cost4								0.741
Agency_Cost5								0.669

Interpretations: The table shown above highlighted the Factor Loading also known as Factor Pattern Matrix, as we want to huighlight the fact that each factor is based upon valid weighted balance for every variable used in this regard.

Moreover matrix is also indicating the correwlation between these variables and the factor, determined through these variables. As the range for all the variables we have used is in the range of -1 to +1, hence it has been optimal to state that the determination of factors are valid and must be carried forward for futher statistuical testing. Then, in order to check the effect of these independent variables on the corporate Governance, we have used multiple regression as we aimed to analyze the impact of all these independent variables on the level of Corporate Governance, as the result will help us further in evaluating the impact of Corporate Governance on the Agency Cost.

Regression : Dependent Variable: Corporate Governance

	Adjusted R Square	F	Sig.	B	t	Sig.
Corporate Structure	0.899	65.386	0.000	.552	4.760	.000
Remuneration Structure				.516	5.040	.000
CEO Duality				.126	2.860	.005
Audit Quality				.434	6.126	.000
Financial Characteristics				.368	3.423	.001
Board Size				.185	2.982	.004

Interpretation: Statistical Analysis proved that all the independent variables are significantly affecting the Corporate Governance and hence the Corporate Governce can be determined as the variable to gauge the Agency Cost. Moreover the bvalueof Adjusted R Square is also more than 0.8, which highlighted that model we have used must also be termed as "**Fit**" for conducting and valuating the research on the Topic of Corporate Governance.

Then after this we have uased Hayed Model finally o check whether these inde endpendent variables are affecting the gency cost themselves or they are affecting the agency cost by impairing with some other sources. The results highlighted by the Hayes Model highlighted the following results:

```
Run MATRIX procedure:

************* PROCESS Procedure for SPSS Release 2.16.3 *****************
          Written by Andrew F. Hayes, Ph.D.       www.afhayes.com
    Documentation available in Hayes (2013). www.guilford.com/p/hayes3
**************************************************************************
Model = 4
    Y = Agency_C
    X = Audit_Qu
    M = Cor_Gove

Statistical Controls:
CONTROL= Cor_Stru Remunera CEO_Dual Financia Board_Si

Sample size
        100
**************************************************************************
Outcome: Cor_Gove

Model Summary
          R       R-sq        MSE          F        df1        df2          p
      .8991      .8084      .1071    65.3859     6.0000    93.0000      .0000

Model
              coeff         se          t          p       LLCI       ULCI
constant    -3.5015      .7406    -4.7282      .0000    -4.9721    -2.0309
Audit_Qu      .4341      .0709     6.1257      .0000      .2934      .5748
Cor_Stru      .5522      .1160     4.7603      .0000      .3219      .7826
Remunera      .5159      .1024     5.0402      .0000      .3127      .7192
CEO_Dual      .1263      .0442     2.8603      .0052      .0386      .2141
Financia      .3676      .1074     3.4231      .0009      .1543      .5808
Board_Si      .1849      .0620     2.9822      .0037      .0618      .3080

**************************************************************************
Outcome: Agency_C

Model Summary
          R       R-sq        MSE          F        df1        df2          p
      .9728      .9464      .0305   231.9876     7.0000    92.0000      .0000

Model
              coeff         se          t          p       LLCI       ULCI
constant      .0293      .4400      .0666      .9470     -.8445      .9031
Cor_Gove      .9559      .0553    17.2810      .0000      .8460     1.0657
Audit_Qu      .0195      .0448      .4347      .6648     -.0695      .1084
Cor_Stru     -.0007      .0690     -.0096      .9924     -.1377      .1364
Remunera      .1147      .0616     1.8622      .0658     -.0076      .2371
CEO_Dual      .0257      .0246     1.0467      .2980     -.0231      .0745
Financia     -.1392      .0608    -2.2904      .0243     -.2599     -.0185
Board_Si      .0218      .0346      .6298      .5304     -.0469      .0905
******************** DIRECT AND INDIRECT EFFECTS *************************
```

```
Direct effect of X on Y
     Effect         SE          t          p       LLCI       ULCI
      .0195      .0448      .4347      .6648     -.0695      .1084
Indirect effect of X on Y
             Effect    Boot SE   BootLLCI   BootULCI
Cor_Gove      .4149      .1431      .0910      .6624
******************* ANALYSIS NOTES AND WARNINGS ************************
Number of bootstrap samples for bias corrected bootstrap confidence intervals:
     5000
Level of confidence for all confidence intervals in output:
    95.00
------ END MATRIX -----
```

Interpretation: Analysis of Hayes model highlighted that, Corporate Governance is playing the mediating role in the research context discussed as above, and akl the vriabels we have considered for this purpose are affecting the Agency Cost but in in-direct manner and through the use of Corporate Governance as the mediating variables in the model.

Area for futire research: As in Pakistan there is no extensive work in this regard, hence there is room for future research through taking data from the board members of listed organizations, or we can also conduct comparative research in order to ewnhance our research findings. Moreover the use of secondary data for finding the impact of these indepennt bvariables, wil also substantite the research work and help others also In conducting valuable research in this regard.

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