

Financial Distress and Corporate Governance
(Evidence from Pakistan)



MASTERS OF SCIENCE IN ACCOUNTING

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Research Completion Certificate

It is certified that the research work contained in the thesis “Financial Distress And Corporate Governance: Evidence From Pakistan ” has been conducted under my supervision to my satisfaction by Mr. Waqas Ahmed, ID, 15007165001 , of program, Master Of Science In Accounting.

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Declaration

I Waqas Ahmed , ID #. 15007165001 Session 2015-2017 hereby certify that this thesis is being submitted in partial fulfillment of the requirements for the Master Of Science degree in Accounting.

This thesis is my original work, and the data/material presented herein has not been used for the acquisition of any other degree from any institution.

The Similarity Index is below permissibly limited.

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Abstract

The present study is conducted to determine the relationship between corporate governance and financial distress. The objective of this study is to analyze whether corporate governance variables can predict financial distress, and to explore relationship between corporate governance mechanisms and financial distress for Pakistani listed companies. This study is descriptive in nature and random sampling is used to determine the relationship between corporate governance mechanism and financial distress. Population consisted of all firms registered on PSE and data is collected from 2011 to 2016. Sample consisted of 93 financially distressed firms and EPS is used as proxy for financially distressed firms. Those firms whose EPS is decreasing during given years are considered as financially distressed firms. Data is analyzed by using statistical methods, as data in present study is panel in nature, so fixed & random model is also applied to extract the relationship between dependent and independent variable. Results of this study show that board size of financially distressed firms was large with less independent directors. Firms hold less number of boards of directors meetings. It is also found in this study that financially distressed firms debt ratio was 46% and some firms are also following CEO duality.

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List Of Abbreviations

FD	Financial Distress
CEO Duality	Chief Executive Officer Duality
ROA	Return On Asset
DR	Debt Ratio
NEDINAC	Non-Executive Directors In Audit Committee
EPS	Earnings Per Share
PSE	Pakistan Stock Exchange
BA	Board Activity
BS	Board Size
BI	Board Independence

Introduction

Corporate Governance

During the Asian financial crisis in 1997 corporate governance was one of important factor. Corporate governance got attention after accounting fraud in world class companies like Enron and WorldCom (USA), Nortel and Crocus (Canada), and Parmalat and Royal Ahold (EU). Reason to be found of these mega scandals was weakness of corporate governance. After these scandals some companies did not follow management strategies with increase of competition due to which they faced dearth in operating performance and go for financial distress.