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The Role of Corporate Governance in Firm's Exporting Decision: Case Study from the Textile Sector in Pakistan

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Abstract: *The aim of the current study is to determine the relationship between the factors of corporate governance and the firm exporting decision. In this study, board size, board independence, managerial ownership, institutional ownership, family ownership, and board meetings were considered factors of corporate governance. Data was collected from a sample of the textile weaving sector through purposive sampling, which consists of 11 textile sectors that were listed on the Pakistan Stock Exchange for the period of 2015 to 2020. The results of the regression analysis showed that board meetings and board independence had a positive relationship with the firm's exporting decision, meaning that both variables positively enhance the firm's exporting decision. Board size, managerial ownership, institutional ownership, board meetings, and family ownership had a negative relationship with the exporting decision of the firms, meaning that these variables have a negative influence on the firm exporting decision.*

Key Words: Firm Exporting Decision, Board Independence, Board Meeting, Family Ownership, Institutional Ownership, Board Size

Introduction

The internationalization of businesses in the last decades has been researched broadly in the advanced and emerging countries of the world. Globalization or the internationalization of businesses includes a number of business operations like franchising, licensing, foreign direct investments, and outsourcing globally. The internationalization of the business is very much encouraged and is considered an eye-catching strategy for proposing business in the developed and developing countries of the world (Manzoor et al., 2023).

Internationalization of businesses and their involvement in international markets are also considered suitable for the growth of the economy. In order to make progress in the economy, as this view is stated by a number of studies that have been done across the globe at national and international levels where a positive and strong relationship is evidenced between boundaries business and the economic growth of the economy (Ma et al., 2023; Liu *et al.*,2023). Thus, it can be rightly said that boosting export sales is highly encouraged and is considered as efficient for boosting the economy (Hobdari *et al.*, 2019). It can be argued that if the internationalization of the business is important to the business and the whole economy, then why not all businesses participate in international business activities and get such benefits? So, the possible answer to this question is that the expansion to the international markets can be risky and contain a very high fixed cost and startup cost, as well as notable threats and doubts (Bello, 2022).

In the context of Pakistan, there has been limited research on the relationship between corporate governance and firm exporting decisions (Abid & Saqlain, 2023; Bukhari & Akhtar., 2021; Waseem *et al.*, 2021).

Few studies have been conducted to check the link between CG and the export choices of companies (Peng et al., 2019). Company governance practices have radically altered as a result of the economic shift

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(Filatotchev, Lanzolla, & Syrigos, 2023). Scholars mostly use the idea of agency to describe how corporate governance affects these kinds of choices (Filatotchev, Aguilera, & Wright, 2020). Since managerial ownership and other corporate governance instruments were largely neglected in the research on corporate governance, it turned out that these factors had a major impact on other aspects of a firm exporting decision (Hobdari *et al.*, 2019). Few studies, however, have applied conventional agency theory to developing economies because of the unique characteristics of corporate governance (Bauweraerts *et al.*, 2019).

To fill the research gap, there is a need to study how the top management team's characteristics, like size and age, affect a firm's exporting decisions (Ilhan *et al.*, 2016). In the international trade literature, managers' ownership and other corporate governance tools have largely been ignored as they relate to a firm's exporting decisions (Doidge *et al.*, 2020; (Filatotchev, Lanzolla, & Syrigos, 2023).

There have never been many studies conducted in Pakistan that highlight the significance of corporate governance and how it affects exporting practices, particularly in the tobacco industry, while ignoring other industries (Sameer & Rehman, 2024; Bukhari et al., 2021; Abid & Saqlain, 2023; Shehzad et al., 2023) Moreover, literature is weaker on relation with ownership structure. To fill the research gap, the current study will be conducted in the Pakistan textile industry from 2015 to 2020.

Significance of the Study

This research not only benefits managers and academics but also helps regulatory authorities better understand the impact that ownership structure and corporate governance play in a firm's choice to export. It assists managers in better understanding the variables that influence exporting decisions. The results of this study are important because they shed light on the connection between managerial ownership and corporate governance and the export intensity of PSX-listed firms. However, corporate governance and ownership structure requirements vary by location and economy. With the determination of better descriptions and comprehensive explanations for variables or elements that influence the firm's export intensity, this research adds to the literature on exporting decision-making by incorporating processes of corporate governance as new components. This research also enhances the growing body of knowledge on ownership structure, in particular management incentives, as they relate to exporting choices made by businesses in emerging and developing countries.

Literature Review

The aim of the current study is to explore the relationship between corporate governance and firm exporting decisions.

Corporate Governance

Corporate governance frameworks determine the proper chain of command by taking into account the degree of relationship between the company and its major stakeholders. Governments, as well as corporate organizations and groupings, must quickly embrace corporate governance and its practices (Manzoor et al., 2024; Alkalbani et al., 2019). In the last year, corporate governance (CG) has emerged as a crucial component that helps managers make wise decisions. Effective control is essential for boosting medium- and long-term company valuation as well as for preserving, establishing, and improving the success and financial performance of the business (Alam & Tariq, 2023).

A board of directors' role, structure, and function are defined by corporate governance, which takes into account the organizational structures of businesses. The primary body in charge of corporate governance, the board of directors, is in charge of guiding a company's operations and providing support for its decision-making in order to safeguard the legitimate interests of its stakeholders. Generally speaking, a company's board of directors is the group that decides on important business matters and establishes corporate management policies (AlKalbani & Touq, 2021).

Size of the Board

Corporate governance board size has been a topic of interest for scholars and practitioners. Research has been conducted to explore the relationship between board size and various outcomes, such as firm performance, risk management, and decision-making effectiveness. As seen theoretically, the responsibility of the board to its shareholders is to govern the management of the company. There is no widespread concurrence on the ideal size of a governing body. Countless individuals address a test as far as utilizing them successfully and additionally having any significant individual cooperation. As indicated by the Corporate Library's investigation, the normal board size is 9.2 individuals, and most sheets range from 3 to 31 individuals.

Independence of the board

A new theory in business management exclaims that most of the committee members should be liberated from the organization. There is autonomy when the part of the board has not been and is not currently taken advantage of by the company or its observer and the head of the board part does not do a lot of work with the company. Each company builds its own high standards (Berman, Berthou, & Héricourt, 2015). The external chiefs can choose all the more autonomously and are better leaders over extensive stretches. Hıdıroğlu (2019) recommends that the independence of directors will improve the board's cautiousness. The monetary autonomy of non-chief autonomous chiefs is a solid guide that helps them screen the organization all the more effectively and control any artful conduct of supervisors. Various changes have been attempted to improve corporate administration works in regard to board independence. These changes include limiting the administration's power over the arrangement of board and panel individuals; utilizing a bigger number of non-chief/free chiefs on the board; carrying out norms in deciding autonomous individuals; and empowering audits of the exhibition of the board and each board part exclusively (Gani, 2024).

Managerial Ownership

The ratio of shares that are owned by all of the members of the boards for the outstanding total shares is called managerial ownership. Tobin's Q is the market estimation of resources separated by the book estimation of all out resources; this is removed from the CCER data set (Zahra et al., 2020). The impacts of administrative proprietorship on firm worth have been of specific exploration premium in the corporate money writing Cheffins & Reddy, 2023). Most reporters agree that administrators' and investors' inclinations are not completely adjusted. This irreconcilable situation produces organizational issues that lessen the firm worth. While investors are keen on amplifying their profits, managers are disturbed about customizing their prosperity and their upcoming career space.

Ownership of the Institution

Institutional ownership is the amount of a company's available stock owned by mutual or benefits reserves, insurance agencies, venture firms, private establishments, gifts, or other enormous substances that oversee assets for other people ((Filatotchev, Lanzolla, & Syrigos, 2023). A few examinations have analyzed various elements of arrangements for clarifying the institutional proprietorship at the firm level. For instance, Gamache et al. (2023) show that organizations presenting financial backer relations programs display higher rates of institutional possession, though they propose that institutional proprietorship is decidedly influenced by the speculation examiners' proposals for stocks. Another surge of the writing recommends that particular sorts of data influence the level of proprietorship help by institutional financial backers. For instance, Gamache et al. (2023) uncovered that data divulgence and institutional possession display a positive relationship.

Family Ownership

A company in which one person or, on the other hand, a bunch of related people is the controlling investor. The term suggests an independent company, yet some privately run companies are widely traded on open market organizations. In the last case, relatives frequently serve on the top managerial staff and may select a portion of their number to significant leadership positions (Chen & Yu, 2023).

Meeting of the Board

A board meeting is a regulated assembly of an association's senior management team and any invited guests, scheduled at predetermined intervals and as needed to review work in progress, consider strategic matters, resolve critical concerns, and conduct the board's official business. Overseeing by one of the association's executives, the working arrangements will document the majority, regulations, and responsibilities pertaining to executive meetings. It may also be necessary to comply with government requirements (Peng, 2019).

Agency Theory

The relationship between the exporting decision of the firm and corporate governance has theoretical support from theories like international trade theory and agency theory. A number of recessions have occurred throughout the world in the previous few decades. Due to such recessions in the economies, corporate governance was given a lot of importance in the research. A number of studies have analyzed the importance and contribution of corporate governance in the outcomes of firms and their performance. However, there is little understanding regarding the relationship between corporate governance and the firm exporting decision. The firm's internal management is affected by its corporate governance. If there is weak control over the management of the firm, then the agency problem will be created in the firm.

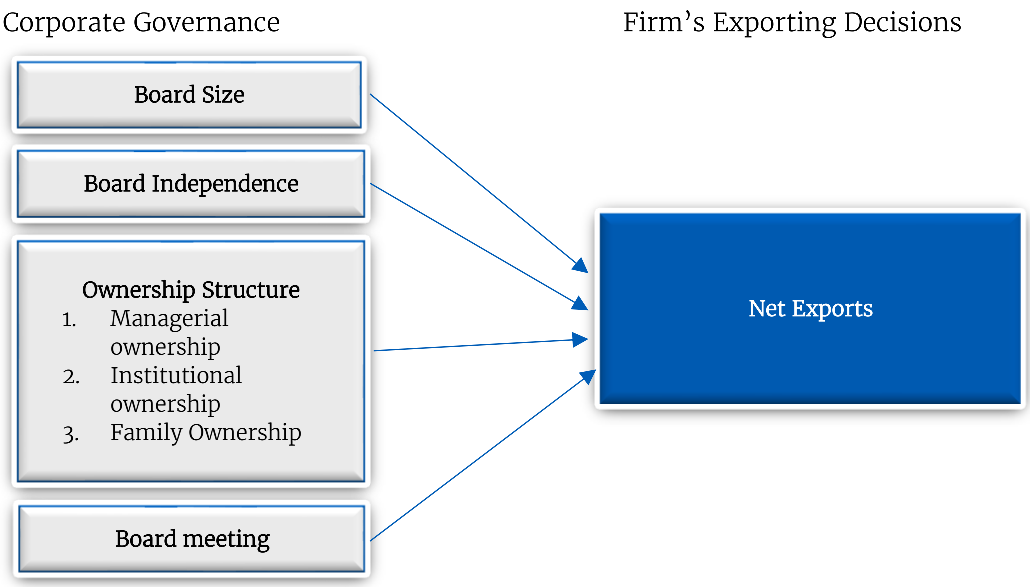
As per the findings of Zajac & Goranova (2024), the problem of the agency arises when the managers of the firms focus on their own interests instead of the interests of the shareholders and start exploiting the rights of the shareholders for their own interests.

According to the researchers, corporate governance minimizes the agency problem, and the management of the firms gets involved in making such decisions that are beneficial for all the stakeholders of the firm. Thus, the investors prefer to invest in the firms. However, managerial ownership and institutional title also lessen the organization's problems, as it has to safeguard its control and investment.

Conceptual Framework

Figure 1

The Role of corporate governance in firm's exporting decision



Model Specification

The following is the study model;

$$FED = \alpha + \beta 1BSIZE + \beta 2\ BIND + \beta 3INSTOWN + \beta 4MNGOWN + \beta 5BMET + \beta 6FOWN\ \varepsilon ....1$$

Whereas;

FED= Firm exporting decision

BSIZE=Board Size

BIND=Board Independence
INSTOWN=Institutional Ownership
MNGOWN=Managerial Ownership
BMET= Board Meeting
FOWN= Family Ownership

Descriptive Analysis

Descriptive statistical analysis shows the central tendency and the dispersion of the data, depicting the data's normality. In the current study, the mean, standard deviation, minimum, and maximum of the variables were analyzed through the descriptive statistics of the variables of the study. The results are shown in the table below:

Table 1
Descriptive analysis

Variables	Mean	Standard Deviation	Maximum	Minimum
Firm Exporting decision	1.79	0.191	0.585	3.000
Board size	8.208	1.975	13.000	4.000
Board Independence	0.299	0.067	0.500	0.125
Managerial Ownership	0.186	0.090	0.333	0.004
Institutional Ownership	0.167	0.073	0.353	0.014
Board meeting	0.184	0.210	0.006	1.896
Family Ownership	0.13	1.45	1.32	0.01

Table 2
Correlation analysis

Variables	FED	BSIZE	BIND	INSTOWN	MNGOWN	BMET	FOWN
Firm exporting decision	1						
Board size	0.103*	1					
Board Independence	0.128*	0.21*	1				
Managerial Ownership	0.115**	0.23*	0.42**	1			
Institutional Ownership	0.031 *	0.003*	0.441*	0.43	1		
Board meeting	0.392*	0.02*	0.44**	0.32*	0.452*	1	
Family Ownership	0.101**	0.053**	0.74*	0.77**	0.221*	0.44*	1

*p < .05; ** p < .01

Table 3
Regression model summary

Model	R	R Square	Adjusted R Square
1	.62	.532	.480

a. Predictors: (Constant) corporate governance
b. Dependent Variable: FED

Table 4
Anova

Model		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	.366	5	.062	17.562	.012
1	Residual	.497	138	.005		
	Total	.863	143			

Predictors: (Constant), BSIZE, BIND, INSTOWN, MNGOWN, BMET, FOWN
Dependent Variable: FED

Table 5
Coefficient

Model	Un-standardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0.542	.135		1.441	.013
Board size	0.112	.001	0.107	.145	.031
Board Independence	.429	.013	.308	2.99	.041
Managerial Ownership	0.130	.106	.122	.156	.029
Institutional Ownership	0.341	.021	.249	.265	.020
Board meeting	.531	.013	.414	.331	.001
Family Ownership	.231	.033	.112	.223	.042

a. Dependent Variable: FED

Discussion

Boosting export sales is highly encouraged and is considered as efficient for boosting the economy (Hobdari *et al.*, 2019). It can be argued that if the internationalization of the business is important to the business and the whole economy, then why not all businesses participate in international business activities and get such benefits? So, the possible answer to this question is that the expansion to the international markets can be risky and contain a very high fixed cost and startup cost, as well as notable threats and doubts (Dabic et al., 2023). The purpose of corporate governance is to control the organization. Corporate governance helps in controlling the agency problem in the corporation (Cheratian et al., 2023).

The agency problem occurs when the managers of the company start working for their own interests instead of for the interest of the whole corporation. Thus, corporate governance plays a significant role in overcoming this problem. Therefore, corporate governance enhances the efficiency and the effectiveness of the firm profitability (Amrah et al., 2023). So, the aim of the current study was to determine the relationship between the factors of corporate governance and the firm exporting decision. In this study, board size, board independence, managerial ownership, institutional ownership, family ownership, and board meetings were considered factors of corporate governance.

For the purpose of achieving the objectives of the current study, a correlation research design was selected. Data was collected from 11 weaving textile firms that were listed on the Pakistan Stock Exchange. The data was collected from the years 2015 to 2020 and analyzed using statistical techniques.

Based on the results of the regression analysis presented in the table, it can be concluded that all independent variables of corporate governance have a significant impact on firm exporting decisions. The model fits the data well and can account for a sizable amount of variation in the dependent variable, as shown by the R-squared value of 53.2% and the modified R-squared value of 0.480. The direction and magnitude of the independent variables' effects on the dependent variable are shown by their coefficients.

Among the independent variables, board independence has the highest coefficient value of 0.308, followed by board size with a coefficient value of 0.107, which indicates that these two factors have a strong positive impact on firm exporting decisions. On the other hand, family ownership has the lowest coefficient value of 0.112, which suggests a weaker but still significant impact on firm exporting decisions. The F-statistics value of 17.562 with a P-value of 0.012 indicates that the overall model is statistically significant and a good fit for the data. Therefore, the null hypothesis that there is no relationship between corporate governance and firm exporting decisions can be rejected, and the alternative hypothesis that corporate governance has a significant impact on firm exporting decisions can be accepted.

Conclusion

The current study aims to determine the relationship between the factors that are related to corporate governance and the exporting decision of the firm. The finding of the current study was measured by mean, standard deviation, minimum, and maximum, showing that the data of the study was distributed normally. The results showed a positive and significant impact of corporate governance on firm exporting decisions. In conclusion, the results of the regression analysis provide empirical evidence to support the importance of corporate governance in firms' decision-making regarding exporting decisions. By paying attention to corporate governance practices such as board size, board independence, managerial ownership, institutional ownership, board meetings, and family ownership, firms can improve their performance in terms of exporting decisions.

Limitations and Future Directions

This research has been done with a lot of effort so that it might benefit the practitioners who are in the field as well as the readers. However, there are some limitations which are of prime concern in the current study. Only one sector is taken, that is the textile weaving sector. In the future, one can conduct research by taking other sectors. The study is limited to Pakistan. In the future, one can do research by taking other countries as well. The research study is limited to only six years. In the future, one can conduct research by considering more years as well.

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