URL: http://dx.doi.org/10.31703/gmsr.2020(V-III).09 DOI: 10.31703/gmsr.2020(V-III).09

Citation: Khilji, Y. M., Khan, S., & Malik, M. F. (2020). The Effect of Chief Executive Officer Dominance and Shareholder Rights on Cost of Equity Capital in Pakistan. *Global Management Sciences Review*, *V*(III), 84-93. https://doi.org/10.31703/gmsr.2020(V-III).09

Yawar Miraj Khilji [*] | Shehzad Khan [†] | Muhammad Faizan Malik[‡]

The Effect of Chief Executive Officer Dominance and Shareholder Rights on Cost of Equity Capital in Pakistan

Vol. V, No. III (Summer 2020) Pages: 84 – 93

p- ISSN: 2708-2474 e-ISSN: 2708-2482 L-ISSN: 2708-2474

Abstract *This Research explores the effect of Chief executive Dominance and Shareholder rights on Cost of equity of listed companies in an emerging equity market, Pakistan. The research is for the period of 2012 to 2018 for which firm level data of top 100 non-financial listed firms from Pakistan Stock Exchange has been examined by using descriptive statistics, a correlation -matrix, Pooled OLS and Fixed Effect Model approach. The impact of controlled variables which includes firm size, Financial Leverage, and Book to market ratio influence on the firms cost of equity has also been investigated. Research results indicate that when Chief executive officers align their interest with that of shareholders, the risk of agency problem is mitigated thus leading to lower cost of equity.*

Key Words: Cost of Equity, Firm Leverage, Shareholder Rights, Chief Executive Dominance, Firm Size, Pakistan Stock Exchange, Corporate Governance

Introduction

Modern era witnesses a rapid growth of non-financial firms which included the sectors of services and manufacturing industry of developing economies such as Pakistan. Globalization has also integrated whole world financially. Challenges are faced by the firm top executive, to manage firm capital for smooth operation and investments. Firms were hit by scandals, frauds, scam, internally and externally. CEO dominance is power of the Chief executive officer within corporate ranks (Anderson & Kilduff, 2009). CEO dominance occurs when CEO is allowed by the board to exercise power and affect corporate decision making plus engage in decision which are contrary to the interest of shareholders and organization (Bozec & Bozec, 2012). The vexing issue for boards is dominant CEO, due to which company faced many issue which include corporate mishandling, fraud, mismanagement and other harm to businesses and its shareholders (Anderson & Kilduff, 2009). Disclosure of corporate scandals in recent years has revealed that dominant CEO in some case manipulate the whole governing process (Elms et al., 2015). Abhorrent decisions making is the result of boards corrupted by the power of CEO, research in social science argue that charismatic leaders, mainly leads the organization corporate affairs by their individual personality traits (Anderson & Kilduff, 2009). CEO leadership quality, together with the group thinking behavior of other corporate executive coalesce to form an environment, where the dissent to CEO decision by other individual is very less (Dinh et al., 2014).

The rights which are possessed by shareholders, on the basis of total or part shares ownership. A right varies according to ownership types, share types, and also contractual rights. Contractual rights are rights attached to the shares from a distinct contract (Geeraerts et al., 2007). Cost of equity is basically considered as a discount rate which an investor applies to future cash flows in order to value the firm (Jiraporn et al., 2012), which has importance while raising equity funds. Cost of equity rises in the case when investor believes that their funds may not be invested properly or wasted. The research has two parts or streams which are brought together in order to examine and explain the variation in the equity cost of firms. The first part investigates the effect of CEO dominance on the equity cost (Jiraporn et al., 2006), and the second part focuses on the points that whether cost of equity is effected by shareholder rights (Ashbaugh et al., 2004). The theoretical

[*] MS Scholar, Institute of Business Studies and Leadership, Abdul Wali Khan University Mardan, KP, Pakistan.
[†] Assistant Professor, Institute of Business Studies and Leadership, Abdul Wali Khan University Mardan, KP, Pakistan.
[‡] Assistant Professor, Institute of Business Studies and Leadership, Abdul Wali Khan University Mardan, KP, Pakistan. Email: faizanmalik@awkum.edu.pk

assumption regarding these two part of the research is that when the quality of corporate governance is good and rights of shareholder are protected this will decreases the agency risk (C. Jensen & Meckling, 1976; Shleifer & Vishny, 1997).

Prior empirical work in the area evidently suggest that when the corporate governance (shareholder rights) are stronger (Ashbaugh et al., 2004) and when CEO dominance is less (Chi, 2005) this cause the decrease in cost of equity capital. These two parts of the research are linked and research examines that stronger CEO dominance is link with high cost of equity and stronger shareholder rights are linked to low equity costs. The debate regarding the pay of executive to be fair or excessive relating to the market is renewed, many researchers have questioned the high discretionary power of the managers, which can influence their compensation contracts. Similarly researchers has claimed that the pay of CEO and CEO performance are the equilibrium result of a market which is efficient in nature, the risk of employment is high and there is scarcity of talent. Corporate governance role is crucial in this consideration. There are two perspective of CEO pay. The first perspective is relating to contest which leads to view that the higher the pay difference between the executives and their CEO as the contest prize for which they competes (Kale et al., 2009).

When the lower and higher executives has high pay gap, lower executive work, which result for a large number of non-executive pools ready for the position of CEO. Skilled internal candidates effect the entrenchment of CEO, in a way that it reduces the risk of succession and the power of bargaining of the CEO. Therefore, this viewpoint prediction is that, there is negatively link between the CEO dominance and the equity cost. The power or authority related to management viewpoint (Lucian Arye Bebchuk & Fried, 2003) examines about compensation of CEO and other executive, which shows that the bargaining power and a large pay disparity reflects an entrenched CEO. Agency problem is high during the tenure of the Entrenched CEO (Lucian Arye Bebchuk & Fried, 2012). Together with it the CEO which is entrenched, effect, the planning for succession, especially in the case of internal candidates (Rajan & Wulf, 2006), which results in high risk of succession.

Previous research resulted that when the rights of shareholder are protected it will lower the firm equity cost. Garmaise & Liu (2011) research revealed that the problem of over investment can be solved by strong shareholder rights which results in lower equity cost. In this perspective D Lombardo, (2002) suggests that cost of equity can be reduced by strong shareholder rights, which result in the reduction of idiosyncratic risk. The empirical side evidence is mixed.(Gompers et al., 2003) used provisions related to ante take over in the bylaws and corporate charter which were denoted as G Index, which were constructed to measure firm shareholder rights, and found that firms having the amount of shareholder rights stronger tend to have a higher stock returns. Analyst hesitate to incorporate the advantages of shareholder rights, thus which leads to the under estimation of earning forecast plus high shareholder rights. On contrary (Core et al., 2006) in their study have not find any such underestimations.

Capital market development has not only led to government regulation plus the level of threshold was also established for shareholder rights, which was enforced by government. But companies are still having discretions in determining the level of shareholder rights in non-regulated markets. The separation of owner ship and management leads to agency problem, where is conflict of interest of the management and shareholders, which give rise to agency cost. For example, the manager willingness or insistence to stay in power, while a change in management could create more value for the firm.

Agency cost can be reduce by management allocating certain rights to shareholders which includes, right to act, meet, hold office liable and right to change etc. Thus, shareholder rights are those rights which show the power balance between both the management and shareholders. In market having weak shareholder rights, the ability of shareholders to exercise their rights is restricted. Hence strong shareholder rights decrease the agency cost, which reduces the equity cost. Compare to Pakistan in United State of America there are high shareholder rights provisions (La Porta et al., 2000).

Previous researches have offered remedies for the problem of agency cost, which consisted of alignment of incentives, discipline monitoring and stock option (Fama, 2012). The chief executive officer who tends to fail to work for the interest of shareholders, can be terminated by the board of directors and similarly a firm which neglects the interest of shareholder is discipline by making hostile takeover (M. C. Jensen & Ruback, 1983). SECP in the year of 2017 introduce code for the corporate governance in Pakistan. This was considered a major initiative for the protection of shareholder rights and minimizing CEO dominance. Reforms included the Board of directors is made accountable to shareholders, listed companies external audit and disclosure. However the provisions codes were limited on shareholder rights and provide no guidance on shareholder rights

and CEO pay slice. Shleifer & Vishny, (1997) argues that the mechanisms of corporate governance consist of legal and economic institutions which can be changed or altered through a process of politics amendments in law. The reforms would make the companies to adopt the rules and thus it would play major role in the minimization of cost by adopting the mandatory mechanisms of corporate governance, which will make the firm capable to raise capital at low cost from outside. Research focuses on the effect of CEO dominance and Shareholder rights on the cost of equity capital for top 100 Pakistan Stock exchange listed non-financial firms. CEO dominance is measured through a variable construct which is known as CEO pay slice (CPS) (Bebchuk, 2011), Which is the total package or compensation of the chief executive with reference to the entire package compensation and remuneration of the five topmost Directors; CEO is also part of it, Which Includes bonus, annual pay, salary, the restricted stock total value granted on the given year, stock options valued by Black-Schole on that given year, and any other total compensation and incentive payouts for long-term (Lucian A. Bebchuk et al., 2011). Shareholder rights are measure through Index which is constructed labeled as Entrenchment index in which a score of 0 to 6 is given to every firm in data base and on its basis the number of provision company has in given year, which include provisions of Staggered boards, Limit to amend laws Limitation for amendment in charter, Super majority Golden Parachute and Poison pill (L. Bebchuk et al., 2009). And cost of equity is measures through (Frank & Shen, 2016).

Review of Literature

Shareholder Rights and Cost of Equity Capital

Agency conflict is caused by ownership and management separation, in which the management have conflict with outside owner (Jensen & Meckling, 1976). For example, a change in management could lead to better result, while management desire to stay in power could lead to decrease in the value of firm. Together with it the manger has high stakes in the firm, which could also lead to manager avoiding those projects which are risky and of high net present value. Manager may also like to hold cash rather than distributing it to the shareholders. These scenarios lead to development of set of rules name as corporate governance, in which the investor which are the finance provider are assured for returns on their investments (Shleifer & Vishny, 1997).

There are two solution for agency problem (Denis et al., 2002), first solution is in the form of incentive alignment and second is monitoring solution. In monitoring solution, the manager watch and work for the interest of the shareholders, while the incentive alignment solution is both management and shareholder interest are aligned. Since the alignment of shareholder and management interest are used as a mechanism to lower or decrease the agency problems. In the scenario of high agency problem, high shareholder rights have the upper hand in decreasing the equity cost. The same can be infer from the model of (Garmaise, 2005), the model suggest systematic risk differences that is having weak or strong corporate governance, make agency problem more severe. With severity of agency problem, the likelihood of dishonest management increases.

Similar studies suggest that the cost of capital can be reduce by strong corporate governance.(Lombardo & Pagano, 2005) in their studies develop a model, where external financer has to pay extra cost for monitoring for attaining certain payoffs. Collecting information regarding the waste or expropriation and punishing manager cost is included in monitoring cost. Investor demand higher expected returns, in order to be compensated for bearing the monitoring cost. Good corporate governance raises the penalty sanctioned on managers for wastage or expropriation, as a result of that the expected cost of expropriation is increase. A lower chance of expropriation reduces the monitoring cost, which decrease the extra expense that the investor has to bear on the required rate of return. (Merton, 1987) in his research recommended that the idiosyncratic risk is bear more by shareholders, when there is chances of the investor not willing to invest due to poor corporate governance, which result in the increase of cost of equity. (Giannetti & Simonov, 2006) suggests that external financer is hesitant to buy shares in firms, with poor or less corporate governance, therefore shareholder bear more idiosyncratic risk and as a result marginal cost of equity is increased.

Albuquerue & Wang, (2008) proposed a model regarding shareholder rights protection and its decreasing effect on equity cost by restraining corporate managers over investments. Hence, it is evident from the severity of agency problem and it effect on the cost of equity due to changes in shareholder rights. (Jensen, 2005) argues that agency problems can be mitigated by hostile takeovers, and firm having more free cash flow are likely to have hostile takeovers. Lastly there are other possibilities of existence of agency conflicts, other than free cash flow over investments, for example manager may dodge and live a peaceful life which may trigger underinvestment (Bertrand & Mullainathan, 2003).

From the theoretical model and the empirical findings mentioned and discussed above research develop its 1st hypothesis which is as following:

Hi: Shareholder rights, are negatively associated with the equity cost.

Chief Executive Officer Dominacnce and Cost of Equity

Hypothesis relating power of manager forecast that larger the CEO salary difference is related to larger equity cost, due to its association with CEO entrenchment and risk of succession. Under this circumstances (Lucian Arye Bebchuk & Fried, 2003) argued that excessively high pay difference in between the executive and their CEO suggests weak board and Entrenched CEO. Consistent with it (Lucian A. Bebchuk et al., 2011) showed the sensitivity to performed is low, when there is high CEO pay disparity. (Jensen & Meckling, 1976) in their theory of agency suggested regarding financer demand higher rate of return in case of entrenched CEO, due to high risk of overinvestment, systematic risk, high monitoring cost, higher estimation risk, the inefficiency to merger and acquisition and information asymmetry.

Albuquerue & Wang (2008) suggested that systematic risk and chances of investment for personal gain is more in the scenario of companies having entrenched CEO. Merger and acquisition is effected by dominant CEO (Lucian Arye Bebchuk & Fried, 2012). Lombardo & Pagano (2005) argues that the monitoring cost is high when there is a case of entrenched CEO, resulting higher demand for the rate of return required in order for safe guarding investment. Entrenched CEO reports manipulated financial statements for hiding opportunistic behavior (Bowen et al., 2008), therefore as a result it raises the equity cost (Francis et al., 2004). Merton, (1987) market hypothesis (incomplete) implies regarding shareholder who do not wish to hold companies shares in case of entrenched CEO, Fever investor shares the idiosyncratic risk thus demanding a higher rate of return. Together with it the CEO to remain

Entrenched may also halt the planning for his succession. In specific they may be not willing to groom executives to be in the high office (Rajan & Wulf, 2006). Lack of opportunities internally forced talented subordinates to look for opportunities other than the internal setup hence reducing the internal pool of skill candidates. (Masulis & Mobbs, 2011) found out that companies having entrenched CEO, have lack of high ability directors internally. The succession of CEO is one of the most central and challenging event in company's life (Friedman, 1988), and its occurrence is not rare. (Friedman, 1988) shows that half of the CEO remained in office after six years during 1960-84 in United States. Review regarding Executive compensation data shows that nearly 10 percent of the business contained by Executive compensation on average faced a CEO turnover in each of the year in 1993-2005. This means that there is 60% probability for CEO leaving of a company in the preceding 5 years. Unfit CEO can harm the Business entity and can also let the top talent of the company be depleted. It is more likely to be that the CEO succession will be followed by major employee uncertainty, confusion and turmoil, in organization strategies relating business (Coyne & Coyne, 2007).

Clayton et al., (2005) found that CEO turnover because a great deal increases in the share price. Take example CEO succession is seen as main part of risk management in corporate culture by the Security Exchange commission and high transparency is advised and disclosure to shareholders regarding succession risk management (Zhang & Rajagopalan, 2010). LIUNA (Laborers' International Union of North America) submitted proposal regarding Chief executive officer Successions of more than seventy businesses, they include Moody and Standard and Poor as a factor in credit rating succession planning. If the subordinated managers have not ample of chances for learning the necessary expertise and skills required for the post of CEO, a difficult learning curve will be face by them after the succession. Instead a risky and expensive external search will be conducted by the Board, which leads to succession risk.

2nd hypothesis is developed from the above theoretical and empirical findings:

Hi: CEO dominance is positively associated with cost of equity.

Chief Executive Officer, Shareholder Rights and Cost of Equity Capital

High CEO dominance increase the conflict between executives and shareholders, it not only maximizes the information asymmetry but also effect the cost of equity. Welsbach & Bebchuk (2010) found out the board of directors have a know how about the proceedings of the firm, when compared to shareholders. Hence their dominance may alert the investors, thus investor demanding high cost of equity. Moreover, some studies also suggested that there is conflict of interest due to high CEO dominance (Konijin et al., 2011). Piera and Piot (2009) studied the link between high

ownership and equity cost. Findings revealed that a high amount of equity cost is increase in case of high CEO dominance and low shareholder rights. Moreover, investor accepts a high degree of return on their investment when there is high CEO dominance (Dia & Bozec, 2015). The increase amount of CEO compensation also rises the cost of equity.

Third hypothesis is developed from above which is

Hi: Shareholder rights and CEO dominance has significant relation with equity cost.

Research Methodology and Analysis

Data has been obtained by this research is relating to non-financial sector in order to analyses the impact of CEO dominance, shareholder rights impact on cost of equity. Total top 100 firms were selected for tenure of 2012 to 2018 this period is taken because of the launch of revised Code of Corporate governance 2012 total six years with 600 observations. In order to get an understanding about the problem secondary data is used. Data is collected from financial statement of firms, State Bank of Pakistan Financial analysis, Business Recorder, and journal. Secondary data consist of all relevant information available in research published, academic journals, and reference books. Information collected is used to get into the research preliminary and also to explain about the background of research plus all the key issues are categorize and classified. Tale 1 presented the variables measurement.

Table 1. Variables of the Study

Variables (Abbreviations)	Measurement	Source
Dependent Variable		
Cost of Equity capital	Cost of Equity capital is measured Capital asset pricing model (CAPM)	(K. Chen et al., 2011) (Da et al., 2012)
Independent Variables		
Shareholder Rights	Index is constructed labeled as Entrenchment index each company in data base is given a score ranging from 0 to 6 and based on the number of provision company has in given year. E-index: Staggered boards Limit to amend laws Limit to amend charter Super majority Golden Parachute. Poison pill	(L. Bebchuk et al., 2009)
CEO Dominance	CEO dominance is measured through a variable construct which is known as Ceo pay scale (CPS). Which is the total package or compensation of the chief executive with reference to the entire package compensation and remuneration of the five topmost Directors, Which Includes bonus, annual pay, salary, the restricted stock total value granted on the given year, , and any other total compensation and incentive payouts for long-term.	Bebchuk et al.'s (2011)(Z. Chen et al., 2013)
Control Variables		
Firm Size (MVE)	log of market value	(Gebhardt et al., 2001)
Financial Leverage (Lev)	LTD/common equity	(Easton, 2007) (Gode & Mohanram, 2003)

Variables (Abbreviations)	Measurement	Source
Book to market ratio (BM).	Calculate common equity divided by market equity	(Gebhardt et al., 2001) (Easton, 2007)

$$\bar{R}it = RFR + (RM - RFR)\beta \ldots\ldots\ldots 3.1$$

$$COCit = \beta 0 + \beta 2CEOit + +\beta 4 MVEit + \beta 5LEVit + \beta 7BM + \mu \ldots\ldots 3.3$$

$$COCit = \beta 0 + B1Git + \beta 4 MVEit + \beta 5LEVit + \beta 7BM + \mu \ldots\ldots 3.4$$

$$COCit = \beta 0 + B1Git + \beta 2CEOit + +\beta 4 MVEit + \beta 5LEVit + \beta 7BM + \mu \ldots\ldots 3.5$$

Table 2. Descriptive statistics of Variables (number of observation 500)

Variables	Mean	Stdev	Min	Max
CPS	0.16	0.15	0.0021	0.98
F size	18.11	0.29	11.45	24.92
F Lev	0.55	3.53	0.0072	3.64
B/m	3.18	3.53	0.0002	16.74
COC	10.77	2.48	6.08	16.41
G	3.63	0.61	1.00	4.00

Variable descriptive statistics is revealed in table 2. Results shows that CEO dominance and shareholder rights have a mean of 0.16 and 3.63 respectively, highest CEO dominance value is .98, minimum value is .00021 and maximum value of shareholder rights 4.0 and lowest is 1. The variation is high among 500 companies observed because of standard deviation of 0.15 for CEO dominance and 0.61 for shareholder rights. This reveals that high CEO dominance in the firm listed on PSX and a low level of shareholder rights is posited in firms listed on PSX. Findings are supported (he Huang & wu, 2010; Huang et al., 2009). Cost of equity mean value is 10.77, the variation is very high among as the standard deviation is 2.48. Firm size average is 18.11 with maximum value of 24.92 and minimum value of 11.45. The mean of financial leverage is 0.55, which is higher a bit then prior studies (Huang et al., 2009). The average score of book to market ratio is 3.18, minimum value of 0.0002 and maximum value of 16.74.

Correlation

The analysis which is conducted to test the association between two variables is known a Correlation. Simple Pearson correlation is run. The value of correlation coefficient statistically is between +1 and -1. If the correlation value is near plus one or minus one then it is said to be correlated values and when the value is near zero then the association between the variable is weak.

Table 3. Correlation Matrix

Variables	CPS	Fsize	Flev	B/m	COC	G
CPS	1					
Fsize	0.1207	1				
FLev	-0.0323	0.1476	1			
B/M	-0.116	-0.1323	0.049	1		
COC	0.0459	-0.045	0.0008	-0.059	1	
G	0.0512	0.0854	0.040	0	-0.0135	1

Note: CPS Chief executive officer Pay slice to measure dominance, Fsize is firm size, FLev is financial

G is governance index for shareholder rights, COC is cost of equity, B/M is Book to market ratioCorrelation between cost of equity capital as a dependent variables and independent variables of shareholder rights, CEO dominance plus control variables of size of firm, financial leverage and book to market value is shown in Table 3 The table above shows that no significantly high correlation between independent variables. Largest correlation sample are between firm size and financial leverage, CEO dominance and financial leverage, evident from the table and also its shows that CEO dominance and shareholders rights are important determinants of cost of equity.

Table 4. Hausman test Results(CEO dominance and COC)

Chi- Sq	53.290
Prob	0.0000

Since the P value of Hausman test is less than 0.05 so researches reject Random effect in favor of fixed effect

Table 5. Fixed (CEO dominance and COC)

Dependent Variable (Cost of Equity COC)			
Independent Variables	**FE Coef.**	**Pvalue**	
CPS	0.34	0.03*	
F size	0.78	0.00*	
F Lev	0.29	0.04*	
B/M	0.23	0.50*	
R-sq	0.380	Adj R-sq	0.370
F-Statistics	29.30	Pvalue (F)	0.000

*Note: FE is Fixed Effect Model, *p < 0.05, **p < 0.01, ***p < 0.001*

Since the P value of Hausman test is less than 0.05 so researches reject Random effect in favor of fixed effect.

Table 6. Hausman test Results

Chi- Sq	54.234
Prob	0.0000

As the chi square is greater than probability than the research opts for Fixed effect model instead of Random effect model.

Table 7. Fixed (G is shareholder rights)

Dependent Variable (Cost of Equity COC)			
Independent Variables	**FE Coef.**	**Pvalue**	
G	-0.08	0.030*	
F Size	0.73	0.0001*	
F Lev	0.063	0.0244*	
B/M	0.230	0.3900	
R-sq	0.470	Adj Rs-sq	0.45
F-Statistics	28.30	Pvalue (F)	0.000

*Note: FE is Fixed Effect Model, *p < 0.05, **p < 0.01, ***p < 0.001*

In the table: above Hausman Test is conducted to test model which is fit. Since value of P is less than 0.05, thus we reject null hypotheses, research will use FE model (Brooks, 2008 p, 509).

Table 8. Fixed Effect Model

Dependent Variable (Cost of Equity COC)			
Independent Variables	**FE Coef.**	**Pvalue**	
CPS	3.36	0.01*	
F size	1.22	0.00*	
F Lev	0.39	0.03*	
B/M	0.18	0.50*	
G	-0.014	0.03*	
R-sq	0.460	Adj R-sq	0.450
F-Statistics	30.80	Pvalue (F)	0.000

*Note: FE is Fixed Effect Model, *p < 0.05, **p < 0.01, ***p < 0.001*

Table 8 presents the Fixed effect model is to determine the effect CEO dominance, shareholder rights effect on cost of equity. R square of FE model value is .460, which shows that 46 percent changes in cost of equity is explained by these variables which are shown in above remaining 54 percent, is reveal by other factors. All the P-Value is significant except book to market ratio. This means that equity cost is not affected by book- market ratio, while the rest of the variables effect on equity cost is significant. The coefficient of shareholder rights is negatively reported which suggest about shareholder rights and its negative significant effect. Furthermore, table also shows that there is significant and positive effect of CEO dominance on cost of equity capital. Form result above research inferred as a unit change in the Chief executive officer dominance will bring a change of 3.36 in cost of equity. Results also indicate that Chief executive officer and equity cost has a positive relationship, entrenched CEO increase the cost of equity. Thus research reciprocate the research findings of (Ashbaugh et al., 2004; Cheng et al., 2006). With dominant CEO, the risk increases due to less monitoring ability of the board thus investor demanding for high return, which

increase the cost of equity. Control variable results are also in the line of research of (Botosan & Botosan, 2016; Gebhardt, Lee, & Swaminathan, 2001; Gode & Mohanram, 2003). All the control variables are positively associated with cost of equity,means that firm size, financial levearage and book to market has positively significant effect except book to market ratio, which has insignificant effect.

By analyzing the results of FE model and the findings (Lucian Arye Bebchuk & Fried, 2012), research findings are consistent but research findings are not consistent with that of (Kale et al., 2009). Which Research empirical outcomes support Hypothesis that CEO dominance and equity cost negative relationship to cost of equity. These findings suggest that high CEO compensation with respect to other board members is look upon as entrenchment symptoms of CEO, not the symptoms to motivate executives which are not CEO. Economic examination of the analysis shows that the estimates of coefficient shows that as Chief executive dominance increase the cost of equity is increased, by keeping other factors constant. The theory of agency support these results and also states that there is more agency problems due high CEO dominance and ownership (Li et al., 2017).(Ashbaugh et al., 2004; K. Chen et al., 2011; Cheng et al., 2006) had similar results. Summary of the results shows that investor in Pakistan impose low equity cost on firms having higher shareholder rights, and low CEO dominance. Result regarding market awareness for implication of high shareholder rights and low CEO dominance is confirmed by this research.

Conclusions

Research empirically sought out whether firms in Pakistan having low shareholder rights and high CEO dominance effect the cost of equity. A sample of 100 firms is selected from Pakistan Stock exchange listed firms. Research is Distinct from previous studies, because Research comprehensively investigates the Chief Executive Office dominance and shareholder rights and its effect on equity cost in background of Pakistan. Research conclusions and findings are based upon Pakistan stock exchange non-financial top 100 firms for the year 2012 to 2018.

It is clear that investors are very responsive to shareholder rights, in order to invest their investment properly and give investor ability to discipline and monitor managers better shareholder rights are important. In return they are willing to accept a lower rate on their returns. The participants of market perceived that companies having better shareholder right would curb the managerial entrenchment thus decreasing the agency cost. On basis of these finding research came to the conclusion that shareholder rights have significant negative effect on cost of equity. This suggests that firms that protect shareholder rights are able to protect the investor investment. Resulting a decrease in the cost of equity due to ability to give investor the monitoring power of their investments. Previous findings of (Ashbaugh et al., 2004; Cheng et al., 2006) are underpin by this research. The research hypothesis that shareholders rights are negatively related to cost of equity is proved.

Research found out Shareholder rights are inversely related to the equity cost and strong shareholders rights are the factor of reducing the equity cost. The managers of the firm interest are the same with the interest of shareholders then the scrutiny of management become less important. This research finding has practical importance for example firm with high shareholder rights can have low cost of equity because of the shareholder rights protections. Together with all these the SECP has made some legislation to strengthen the rights of shareholders and our results also states that strengthening shareholder is strengthening the firm thus reducing the equity cost. In return mitigating the agency cost.

CEO dominance coefficient is 3.362, shows significance at the level of 1%. All control variables coefficient signs are line of other literature signs. Cost of equity is positively related with financial leverage, firm size, and book to market ratio For instance (refer to table 4.7). This infers that the firms in Pakistan, with high level of CEO dominance are look upon as the entrenchment factor and investor demand high return on their investment, thus ultimately giving rise to the cost of equity. Another factor is the value of P which is less than 0.05 and is significant thus research accept third hypothesis CEO dominance and shareholder rights hasve significant effect on equity cost. This research results have practical significances for example companies having low dominance of CEO can have low cost of equity because of the alignment as the CEO goals and values are aligned with that of the firm this is also known as alignment effect.

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