EXPLORATORY STUDY OF LIQUIDITY AND CORPORATE GOVERNANCE ASSOCIATION WITH FIRM PERFORMANCE: KAZAKHSTAN EXPERIENCE

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INTRODUCTION

Corporate governance issues and last decades' financial bankruptcy scandals in the Western world taught good lessons about the relevance of the agency problems in modern corporations and, consequently, the importance of corporate governance – the set of mechanisms and mitigates the agency problems leading to better decision-making and higher performance of both financial and non-financial firms.

General view on a corporate governance as at a relationship between an agent, the chief operating office of a corporation, and multiple principals the shareholders, lenders, suppliers, clients and other parties engaged in business with a corporation.

Boards, external auditors, legal consultants act as intermediaries or often representatives of such diverse group of principals. Jensen and Meckling (1976) describe a firm as "a nexus of contracting relationships". More modern view is that the corporate governance problem can also be described as a "common agency problem" according to Bernheim & Whinston (1985, 1986) who examine the agent CEO and multiple principals: shareholders, creditors, employees, clients relationship. Becht *et al.* (2003) consider corporate governance rules as "the outcome of the contracting process between the various principals or constituencies and the CEO. Thus, the central issue in corporate governance is to understand what the outcome of this contracting process is likely to be, and how corporate governance deviates in practice from the efficient contracting benchmark."

Financial crises in South Asia and Russia in 1997-1998, and as recent as in 2008-2009 provide additional evidence of importance of corporate governance. Weak or corrupt corporate governance practices in financial institutions and corporations worsen the situation and lead to a conclusion that agency problem and corporate control are key fundamentals for investment process, influence on the shareholder wealth and hence on the firm value.

Board of directors in Commonwealth of Independent states (CIS) countries are considered weak and ineffective monitors of managers. Which is turn required an identification of additional mechanisms to monitor management. Widely documented experience in the developed countries is "the existence of at least one blockholder with concentrated voting power" (Becht *et al.* (2003)) though variations across countries are expected and exist.

Establishment of good corporate governance together with identification of good governance practices has become an increasingly important task for CIS counties and Kazakhstan for several reasons. First reason, countries are transforming from state and centralized oriented economies to a private sector centered economies. Second reason is that privatization was taking a vary rapid and important role in establishing private ownership in these countries. Third reason, very quick replica of corporate governance practices (for example, corporate codes adoption according to the requirements of the Kazakhstan stock exchange) resulted in weak and inefficient boards in corporations.

Some governance characteristics fall into two main models: agency model and adverse selection model. Agency model is driven by a divergence in the goals of owners and managers running the firm, while adverse selection model is motivated by different access to information and ability of management to generate some benefits that cannot be observed directly by shareholders.

The focus of this paper is to study the existence or association between liquidity, corporate governance and firm performance of Kazakhstan firms between 2005 and 2010. This paper focuses on Kazakhstan due to its growing role in the Central Asian and former CIS markets region, its great potential in global financial markets. Empirical studies examine the relationship between liquidity, corporate governance and find some relationship between the liquidity and firm value.

The paper starts by focusing on literature review and then discussing its implications on Kazakhstan market; relations of liquidity measures to corporate governance, firm performance and, with this, the association among these factors. Next, problem statement introducing the theoretical basics and relevant definitions and the significance of the study are provided. The paper finalizes discussing the preliminary results that liquidity enhances corporate governance, and in its turn, improved corporate governance leads to a better firm performance; limitations and potential for further research conclude the paper.

LITERATURE REVIEW.

Literature review is related to the following categories: corporate governance; liquidity and firm performance; corporate governance and firm performance.

Corporate Governance.

Corporate governance also includes the relationships among the many stakeholders involved and the goals for which the corporation is governed. Aoki (2000) considers corporate governance as "structure of right and responsibilities among the parties with a stake in the firm."

Various descriptions of national specifics are discussed in the research literature; however, still the necessity to clarify the concepts and methodology to tackle the challenges of cross-national diversity exists

The Organization for Economic Cooperation and Development closely collaborates with governors and regulator in the CIS and Kazakhstan covering wide range of topics and issues aimed at further development of the market economy.

Demirbas and Yukhanaev (2011) drawing on OECD definition of corporate governance elaborate further on the corporate governance and its peculiarity in relation to developing economy of the CIS and Kazakhstan: "the Russian Federation is a special case of international corporate governance with numerous gaps to explore for researchers and policy makers studying issues".

In developing economies of the CIS and Kazakhstan the financial regulations were designed from the scratch, analogous characteristics in terms of the establishment and development are expected. Large shareholder, for example (as discussed above), may well be the State. Which means that State involvement in decision making in terms of divesting assets, cash flows, etc. may have a significant influence and hence, association with quality of corporate governance.

Understanding of the corporate governance in Kazakhstan requires clear specifications and respective attention paid not only to separation of control and ownership (controlling party versus non-controlling interest party), but also to influences from outside such as State via introduction of legal reform, tax legislative restrictions on cash flows, i.e. read liquidity, decentralization may also interface with corporate governance reforms as well. Thus, effects of corporate governance reforms and State involvement may well affect the relationship between liquidity of the firm, country's market liquidity and as a consequence firm performance.

Liquidity and firm performance.

There is insufficient attention in the current literature with regard to the view on the relationship between liquidity and corporate governance. Li *et al.* (2012) argue that market liquidity and corporate governance have positive relationship, and further document strong positive relationship between governance and valuation of the firm. Valuation is often seen as

the product of a firm's performance it is also considered to be a measure of the firm's performance.

While other view belongs to a group of researchers like Boehren and Oedegaard (2003) who illustrate that "corporate performance relating to a particular aspect of corporate governance may not capture the true relationship unless that specific aspect is controlled for other aspects of governance." Support for this idea is found with Bebchuk *et al.* (2004) who argue that "not all corporate governance features matter to all firms." They demonstrate that shareholder rights and takeover defenses are the key corporate governance features which affect the performance of American companies. Due to historically different development of the corporate governance system in Kazakhstan, different set of practices and relevant features of corporate governance may play a role in becoming influential factors for firms' performance in Kazakhstan.

Required rate of return is often considered to be one of the measures of performance. According to Li *et al.*. (2012), empirical research that were based on the classical capital assets pricing model show that "the lower the liquidity of the firm the higher the required rate of return." In this sense one may infer that the operating effectiveness of the firm directly influence the profitability and performance, and eventually management compensation which is another aspect of the corporate governance. Fang *et al.* (2009) find positive relationship between liquidity that depends on the operating performance and firm value. They conclude the liquidity of the firm and its performance are positively related and have some causality relationship. These studies demonstrate the importance of the liquidity on firm performance.

Corporate governance and firm performance.

The agency theory contains the notions of (i) an agent with an intention to maximize his own benefit, and (ii) a principal (Bushman and Smith, 2001). The latter hired the agent to make decisions for on his behalf with the aim of maximizing the share price, firm value and shareholders' wealth. This theory concludes is that each individual (agent) has its own goals, which are not consistently in line with the ones of the principal. Thus, it is crucial for the principal to possess sufficient financial information that serves as the basis for principal's decision making.

Various corporate governance systems may vary across countries and therefore may provide different level of influence upon firm performance. Given the nature and historic development of the economies, financial markets and corporate governance systems, it is not unusual to expect the results of the empirical research. Klapper and Love (2004) demonstrate in their cross-country study of 14 countries that better corporate governance is positively correlated with improved operating performance of firms. This in turn is also a driver for better market valuation of firms and is correlated with better corporate governance. A similar study of Gruszcynski (2006) in Poland find that "the degree of corporate governance is positively related to firm's financial performance and liquidity."

Li *et al.*. (2012) and earlier Black (2001), Black *et al.* (2006) study Russia as their primary focus as some researchers earlier mentioned do not take into their sample Russia. Motivated by the work of Li *et al.* (2012) and Black *et al.* (2006), this paper illustrates exploratory study of the relationship between corporate governance firm performance and liquidity measured in operating terms.

METHODOLOGY, PROPOSITIONS AND DATA

Formal definition of the corporate governance is a question of understanding and interpretation by different researchers and regulators. *Corporate Governance* refers to the way a corporation is governed. Jensen and Meckling (1976) describe a corporation as "a nexus of contracting relationships". Such relationships can be seen from various angles. One classical view is that agency problem between the principal and an agent CEO. While nowadays, the principal is multiple and represent dispersed group shareholders, lenders, suppliers, clients, employees. Second view is that manager and directors do involve in corporations' management

roles shareholders or their representative who are often do not posses differential ability to observe the same level of information, cash flows or ability to generate cash flows as internal manager do. Often these internal managers have a better and quicker access to an information that matters in decision making and thus, playing a turning point in the liquidity measures decision making.

The world is shrinking and globalization turns into very acute topic nowadays. Developed countries face serious challenges caused by financial crisis which is according to many leading economists is considered to be worst since the great depression times of 1930s. Same challenges face developing and emerging countries, such as CIS and Kazakhstan.

Less developed corporate governance mechanisms do not allow efficient tools to meet he current challenges. Poor legislative regulations which do not efficiently guarantee private investors rights' protection, insufficiency in the relative banking regulations, underestimated role of related parties disclosures are of more importance and significance in these area that may demonstrate the existence of association with shareholder wealth and hence company value.

The relationship between stock market liquidity, operational liquidity and corporate governance as well as is relationship between firm performance and corporate governance systems still not well studied and is being debated in the literature. Recent studies by Li *et al.* (2012) of the Russian experience suggest that "there is a positive causal relationship between measures of liquidity and corporate governance." In addition, they identify positive relationship between corporate governance and firm valuation. Balck *et al.* (2006) also show the effect of this relationship on the basis of Russian firms' information. We try to take a sample of 22 largest public Kazakhstan companies.

Research Objectives.

The research contribution is in the area of exploring the existence of association between liquidity, corporate governance and firm performance. This represents one of few attempts to study this issue in Kazakhstan.

Thus, the first objective is to define the corporate governance within developing countries markets comparing Kazakhstan and Russia, investigate the peculiarities of the corporate governance problems and issues associated with the cultural, historic and/or economic differences across these countries, i.e. to present a comparative analysis of corporate governance mechanisms and problems in the region.

The second objective is to identify those related corporate governance aspects which influence the firm performance as may be driven by operational liquidity. The expected corporate governance aspects may vary across these 22 firms as very low level of corporate transparency is expected to be identified.

Third objective is to explore and examine the association between firm operating liquidity measured on the basis of operating performance and relevant corporate governance features for the sampled firms.

Finally, the fourth objective is to explore the relationship and influence of economic performance of the firms and related corporate governance aspects. The idea here is to analyze the power of estimated influence of the corporate governance on firm performance. Additional attention will be paid to the aspect of the quality of firm governance.

Research Methodology.

The research theme is the corporate governance, firm operating liquidty and firm performance Influence of corporate governance upon firm's operating liquidity and hence upon the firm performance and vice versa relationship. Durnev and Kim (2005) and Maug (1998) predict that better governed firms have better performance and hence better firm valuation. Having studied implications of their work, we test the first research questions by setting hypothesis with aim at investigating the existence of the association and searching for positive nature of such an association between corporate governance and liquidity.

Research question 1:

Is there an association between corporate governance and better liquidity of a firm?
Hypothesis 1.1:
Positive association between corporate governance mechanisms and better liquidity of a firm exists.
Hypothesis 1.2.
Positive association in influenced by firm's transparency and disclosure index
Hypothesis 1.3.
Positive association is influenced by firm's improvements in corporate governance mechanisms.

The link between corporate governance and firm liquidity, hence firm performance is in the core of research questions 2 and represents second set of hypothesis tested in this paper.

Research question 2:
Is improved corporate governance associated with firm performance?
Hypothesis 2.1:
Improved corporate governance is associated with firm performance.

We use the time-series regression analysis to examine if there is an association between the corporate governance mechanisms and liquidity. Inspired by the work of Li et al. (2012) in relation to their studies of Russian firms, we use similar model to study.

Equation 1:

$$Ln(TrD_{it}) = \beta_0 + \beta_1 * ln(Trade_{it}) + \beta_2 * ln(Size_{it}) + \beta_3 * Lev_{it} + \varepsilon_{it} \qquad (1.0)$$

$$Q_{it} = \alpha_0 + \alpha_1 * ln(TrD_{it}) + \alpha_2 * ln(Rev_{it}) + \alpha_3 * CR_{it} + \varepsilon_{it} \qquad (1.1)$$

TABLE 1. VARIABLE DESCRIPTIONS.

Variable	Definition	Measurement
$Trade_{it}$	Trading volume	Dollar trading volume
TrD_{it}	Index of transparency and disclosure as a measure of corporate governance level of development	Transparency and disclosure index for a particular firm *i* in a given year of *t* as stated by the Standard & Poors.
Q_{it}	Tobin's Q	Market value of total / Book value of total assets Market value of assets = MVe + Total Assets – Book value of equity.
Rev_{it}	Total sales	Total sales in a given fiscal year *t*.
CR_{it}	Cumulative return	Is lagged semiannual cumulative return.
ΔCFO_{it}	Measure of financial performance and liquidity	Change in CF from Operations in year *t* to year *t-1* divided by CFO year *t-1*.
Control variables	Defined as per Li et al (2012)	Also depends on data availability.
$Size_{it}$	Size of a company	Natural logarithm of total assets of a firm *i* at the end of fiscal year *t*.

| Lev$_{it}$ | Ratio of total debt to total equity | Ratio as calculated for a given firm i at the end of fiscal year t. |

Ln – denotes logarithm

Control variable in the equation 1.0 is (i) SIZE$_{it}$ which controls for company size as measured by total assets at the end of fiscal year; and (ii) leverage ratio. It is expected that large firms have better development and implemented corporate governance system as their shareholders usually a wider group of investors and have more power to monitor. As literature suggests, some researches control for leverage ratio. The stronger ratio indicates presence of outside lenders who tighten requirements for voluntary disclosure and higher level of transparency. Thus, leverage ratio serves as a control variable in the first equation.

Equation 2:

$$Ln(TrD_{it}) = \beta_0 + \beta_1 * ln(\Delta CFO_{it}) + \beta_2 * ln(SIZE_{it}) + \beta_3 * Lev_{it} + \varepsilon_{it} \qquad (2.0)$$

$$Q_{it} = \alpha_0 + \alpha_1 * ln(TrD_{it}) + \alpha_2 * ln(Rev_{it}) + \alpha_3 * CR_{it} + \varepsilon_{it} \qquad (2.1)$$

Expectations in relation to sings of relevant *beta* and *alfa* coefficients are based on the hypothesis of a relationship between liquidity, performance and corporate governance; it is expected that ΔCFO_{it} as measure of liquidity should positively (negatively) influence corporate governance, thus, β_1 be positively (negatively) signed in the first equations. Consequently, it is expected that coefficient α_1 be positively signed in the second equation since it is also hypothesized that improved corporate governance enhances firm performance.

Data.

Data used in this study cover the three-year period from 2007 to 2009. Transparency and disclosure scored for Kazakhstan firms were obtained from Standard & Poor's survey reports. The latter provides an evaluation on the basis of the following criteria: structure of ownership and shareholder rights; financial and operational information; board and management structure and process.

Information on 22 companies to be included was selected on the basis of the criteria of size and liquidity. Data on the companies are provided in the Table 2 below.

TABLE 2. COMPANIES INCLUDED IN SAMPLE.

##	Company Name	Listing	Securities Traded	Listing level
1	Alliance Bank	KASE	Bonds, Eurobonds	third
2	Astana Finance	KASE	Bonds, Eurobonds	third
3	Azia Auto	KASE	Bonds, Eurobonds	second
4	BTA Bank	KASE	Bonds, Eurobonds	first
5	Bank CentreCredit	KASE	Bonds, Eurobonds	first
6	Chagala Group	LSE	Bonds, Eurobonds	
7	Deltabank	KASE	Bonds, Eurobonds	second
8	Eurasian Natural Resources Corporation	LSE, KASE	Bonds, Eurobonds	First
9	Halyk Savings Bank of Kazakhstan	LSE, KASE	Bonds, Eurobonds	First

10	Kazakhtelecom	KASE	Bonds, Eurobonds	First
11	Kazakh Gold	LSE	Bonds, Eurobonds	
12	Kazakhmys	LSE, KASE	Bonds, Eurobonds	first
13	Kazakhstan Kagazy	LSE	Bonds, Eurobonds	
14	KazInvestBank	KASE	Bonds, Eurobonds	second
15	Kazkommertsbank	LSE, KASE	Bonds, Eurobonds	first
16	KazMunayGas Exlporation and Production	LSE, KASE	Bonds, Eurobonds	first
17	KazTransCom	KASE	Bonds, Eurobonds	
18	Nurbank	KASE	Bonds, Eurobonds	first
19	Temirbank	KASE	Bonds, Eurobonds	first
20	Tsesnabank	KASE	Bonds, Eurobonds	second
21	Ust-Kamenogorsk Titanium Magnesium Plant	KASE	Bonds, Eurobonds	third
22	ZhaikMunay	LSE	Bonds, Eurobonds	

Companies sampled are largest public companies in Kazakhstan whose securities are traded on a stock exchange with minimum annual average market capitalization was $100 million in respective years of 2007, 2008 and 2009. These years represent the coverage for significant market volatility during recent years of crisis. Liquidity criteria was determined to be by inclusion of companies securities trading in either first or second category in Kazakhstan Stock Exchange (KASE) or be listed elsewhere in an international exchange. Comparing the size of KASE to other international exchanges, KASE is relatively "modest in size: total market capitalization amounts to approximately 40% of GDP in 2008, compared to 167% in China, 134% in India, 107% in Russia, 97% in Brazil" according to official data reflected in Pastoukhova *et al.* (2012). One further improvement of the current study could be extension of the sample to a bigger number of companies sampled. Stock exchange is relatively small and many non-public companies in Kazakhstan to "a significant degree" are state-owned via Samruk Kazyna National Welfare Fund. The transparency and disclosure requirements are also if particular relevance to these state-owned non-public companies. Other non-public companies may also benefit from improved corporate governance structures measured via transparency requirements as improved systems may provide easier access to capital markets to these companies. Transparency becomes even more important and acute instruments for such companies since in 2012, such state-owned companies are subjected to People's Initial Public Offering. This becomes another sources of capital for these companies provided the ability of the State to provide financing to these companies is not unlimited.

The analysis in this area is based on the three major sources of publicly available information: (a) annual reports of the companies, (b) financial statements provided on KASE or other exchange; (c) public regulatory reporting. Overall average result of transparency index for 22 companies was 44% in 2009. This represents relatively low result by comparing to international data. Similar result for 2003 calculated for the UK was 71%, 70% for the USA, 68% for France, 61% for Japan and 56% for Germany. Transparency score calculated for

Russia in 2003 was 40% and 2008 calculations that included around 90 large public companies in Russia resulted in score of 56%. Similar index for 300 large Chinese companies in 2008 was 46%, a little higher than 2009 figure for 22 Kazakhstan companies.

Highest score among large public companies in Kazakhstan belongs to KazMunayGas Exploration and Production, biggest production subsidiary of KazMunay Gas Group, is 67%; Eurasian Natural Resources Corporation (ENRC) 64%, Kazakhmys 61% and Kazkommertsbank 61%. These companies disclosed information availability and transparent and free from bias presentation demonstrate advanced level of financial and operational information presentation, full information in relation to shareholders procedures and structures, sufficient level of corporate governance mechanisms disclosure.

Ownership concentration in terms of a blockholding party presence demonstrate high level of concentration of ownership: 86.4% companies have at least one large shareholder with a stake exceeding 25% that may be considered and does posses blockholding power. 11 companies (50%) surveyed owned by majority shareholding. Information about blockholder is disclosed by almost all companies except for one. Around 33% of companies demonstrate sufficient level of disclosures in relation to ownership transparency. This is mainly due to two factors: (i) improvement of regulatory in Kazakhstan and (b) adoption of IFRS since 2005. The IFRS framework adoption requirement for public companies and large non-public enterprises and public interest companies is considered to be creditable achievement. Same time not all internationally widely presented in practice disclosures are present and provided by companies in Kazakhstan. Disclosure of indirect holdings or other ownership through affiliates are not required to be disclosed yet.

Table 3 present summary statistics for variables and its extreme values. Definitions of variable are as provide in table 1 and relevant data presented below.

TABLE 3. VARIABLE DESCRIPTIVE STATISTICS

	Mean	Std Dev	Min.	Max.
TrD	44.101	10.147	8.001	67.460
Ret	0.012	0.051	-0.006	0.468
CR	1.206	0.970	0.000	11.454
Size	12,115.225	34,307.482	72.264	128,114.003
Q	1.983	2.412	0.126	17.125
Rev	7,254.002	16,254.125	49.125	69,144.008
Lev	0.461	0.152	0.028	0.688
CFO	125.458	28.855	22.810	758.019
Trade	9,871.003	27.204	7.102	195,875.002

Mean of the transparency score of 44% is lower than average for Russian firms according to Li *et al.* (2012) is 56%, which may be interpreted as lower level of disclosure requirements development and regulatory requirements for disclosure and transparency less strict in Kazakhstan. The highest score is 67.46% belongs to a national oil producing company KMG EP which is also listed on London Stock Exchange (LSE) and is learning the experience of companies listed in developed countries and relevant level of corporate governance to be followed as well. Researches show that for the firms whose securities are also listed on the foreign stock exchanges, like KGM EP on LSE or Kazakhmys listed on LSE, the transparency and disclosure index tend to be higher. This is also illustrated by the study of Charitou *et al.* (2007). The lowest score in this study is 19%.

Results.

Some results of the regressions and correlation between variable are presented in the Table 4 and Table 5 respectively.

TABLE 4. CORRELATION MATRIX

	TrD	CR	Size	Q	Rev	Lev	CFO	Trade
TrD	1.000							
CR	-0.112	1.000						
Size	0.154	0.092	1.000					
Q	-0.127	0.157	-0.062	1.000				
Rev	0.278	-0.008	0.714	-0.064	1.000			
Lev	-0.059	0.269	0.124	0.375	0.158	1.000		
CFO	0.114	0.112	-0.025	-0.078	-0.108	-0.045	1.000	
Trade	0.136	0.026	0.254	-0.244	0.425	0.074	-0.072	1.000

Several interesting features may noted in this matrix. Revenues from sales and total assets measuring firm size positively correlate with Transparency and disclosure (TrD), this means that the larger the firm the better this index and hence the firm is more transparent. This is also due to the fact that most of large firms in the sample are traded in the LSE and are subject to more scrutinized disclosures requirements. The measure of liquidity which is ΔCFO and trading volume of securities are positively correlate with TrD. This may also be read as an indicator for less liquid firms to demonstrate lower TrD scores. Positive correlation of the Q measure with returns and leverage is another indicator of the fact that firms with stronger set of corporate governance processes tend to become more transparent compared to less liquid firms with lower score of leverage.

TABLE 5. REGRESSION RESULTS.

	Equation 1		Equation 2	
	Estimate	p-value	Estimate	p-value
β_0	3.274	0.000	3.189	0.000
β_1	0.004	0.000	-0.005	0.005
β_2	0.001	0.000	0.004	0.005
β_3	-0.041	0.000	-0.006	0.000
α_0	-35.112	0.000	-42.871	0.000
α_1	46.721	0.000	51.875	0.000
α_2	0.215	0.120	0.301	0.074
α_3	0.206	0.122	0.324	0.051
Adj R^2	0.104	0.121	0.111	

The main objective of this study was to understand the relationship between liquidity, firm performance and corporate governance. We tried to study the relationship between liquidity and transparency and disclosure index, the level of associations between corporate governance mechanisms and firm performance for Kazakhstan firms. The equation 1 dependent variable is used as independent variable in Q equation in each set of equations. Analysing the equation 1, a statistically significant positive coefficient of β_1 is identified at 0.004. This may be interpreted as for 1% change in dollar trading volume of a security, its TrD score will increase by 0.004% holdingf all other parameters constant. This positive coefficient of liquidity measure indicates that the firms with higher level of trading tend to score higher level of TrD index while controlling for factors such as company size and leverage ratio. This finding is consistent with theoretical findings of Maug (1998) and Li *et al.* (2012). As equation 2 suggests, the results for coefficient β_1 is equal to -0.005. This is significant in terms of change in share prices and relevant decline in cash flows from operations, indicating lower liquidity, will lead to a decline in TrD score by 0.005%.

Further analysis demonstrate the need to note coefficients β_2 and β_3 being positively signed respectively and significant. Positive sign of the β_2 coefficient provides some room for discussion and questioning the result. Some researchers find that the firm size and disclosure index tend to be correlating the same direction. Results of Li *et al.*(2012) and Lazareva *et al.*

(2007) demonstrate negative coefficients in their models and illustrate that in the Russian market investors prefer to deal with small and medium sized firms compared to large ones. One possible explanation may be that such firms are expected to be preferred by investors over large firms as ownership of such firms are not clear, such firms are not always willing to disclose their ultimate controlling party. Similar trend could have been expected in Kazakhstan, however this is not the case in Kazakhstan as compared to Russia, where such firms may be assumed to be owned by oligarchs. The results show positive sign and this means that larger firms are more transparent and expected to be possess better developed corporate governance mechanisms.

Similar to discussion of the coefficient β_2, may be discussion of the positive result of the coefficient β_3. This coefficient indicates that firms with a higher leverage are more transparent as demonstrated by other researchers like Florakis and Ozkan (2009) who finds positive relationship for better governed firms to have opportunity to afford higher level of leverage. This is explainable for firms with higher leverage there is more capital attraction opportunities in the capital markets. This in turn means stronger and stricter requirements for transparency and disclosures as managers find incentives for more public disclosures than other firms with non-public interest.

Liquidity positively impacts firm performance as modeled via TrD score and is negatively impacted by changes in operating cash flows as demonstrated by the equation 2. This equation looks at the impact of TrD measure on a firm's Tobin's Q, while controlling for level of revenues from sales. This result is in line with other results from literature that firms with lower asymmetric information tend to be encouraged by the market by placing on them a premium. This results channels an association of the transparency and disclosure level (as the coefficient is both statistically significant and positive) with the firm liquidity and performance. Coefficient for level of revenues from sales is positively signed as expected and demonstrates the increase in relative firm performance. Finally results are consistent with the results of other researchers theoretical implications of Ammann *et al.* (2011) and Black (2006) as well as some empirical work of Li *et al.* (2012), Lazareva *et al.* (2007). Even though in some aspects (like coefficient sign for level of a firm size – total assets) the result is different. Still it may be interpreted with a reference to an experience of a neighbor country whose economy and overall corporate governance systems development is both historically and economically similar to ones in Kazakhstan.

CONCLUSIONS AND FURTHER RESEARCH

The results of this study demonstrate that association between firm performance, its liquidity and relevant level of corporate governance systems development exists. As results also show this association is positive and illustrate the larger firms with better corporate governance are more transparent and provide a better level of public disclosures compared to a smaller ones. It is also worth noting that firms with a higher level of leverage while controlling for other parameters demonstrate higher level of transparency and disclosure index. This paper documented positive association of the expected results though based on the sample of 22 firms. This sheds some light on the role of liquidity, firm performance and improved corporate governance mechanisms in Kazakhstan firms.

Further research in this are may include a larger sample of firms. Non-public interest firms being sufficiently large and owned by the state (via National Welfare Fund Samruk Kazyna) may become additional sample items and let increasing the robustness of findings as well as possibility for better interpretations. Better inferences about Kazakhstan market may be made if the sample is enlarged. Cross-sectional analysis and its potential influence may also be studied as one area of potential interest. Comparative study of countries of the former USSR: Russia, Kazakhstan, Baltic countries and Azergaijan may also be of other area of potential research. Countries with developed at some level corporate governance mechanisms as being carefully guided through this process by European Union, for example, Baltic countries, and

countries with weaker corporate governance systems are of particular interest for future research.

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