ISSN 3007-3170(O)
ISSN :3007-3162(P)

January-March 2025

Social Sciences & Humanity Research Review

Assessing the Impact of Regulatory Frameworks on Corporate Governance, Csr, and Firm Performance in Pakistan

Rehana Saddique[1], Dr. Ayaz Ul Haq[2]

[1]MBA Scholar, Department of Management Sciences, Shifa Tameer-e-Millat University, Islamabad, Email: haniyaali022@gmail.com

[2]VFM, Department of Management Sciences, Shifa Tameer-e-Millat University, Islamabad Email: drayaz@cbsr.com.pk

ARTICLE INFO

Keywords: Regulatory Frameworks, Corporate Governance, CSR, Firm Performance

Corresponding Author:
Rehana Saddique, MBA Scholar, Department of Management Sciences, Shifa Tameer-e-Millat University, Islamabad,
Email:
haniyaali022@gmail.com

ABSTRACT

This study explores the influence of regulatory frameworks on corporate governance practices, corporate social responsibility (CSR), and firm performance within the context of Pakistan. As emerging markets face unique challenges and opportunities, understanding how legal and institutional regulations shape corporate behaviors is crucial for sustainable development. Utilizing a qualitative research approach, this research examines the perceptions of corporate managers, regulators, and stakeholders through interviews and document analysis to uncover the mechanisms through which regulatory standards impact governance structures and CSR initiatives. The findings highlight that robust regulatory frameworks enhance transparency, accountability, and ethical practices, which in turn positively influence firm performance. Conversely, weak enforcement and regulatory ambiguities hinder effective governance and CSR adoption. This research contributes to the existing literature by providing contextual insights into the Pakistani corporate landscape and offers policy recommendations aimed at strengthening regulatory institutions to foster responsible business practices and sustainable economic growth.

Introduction

Concept, Methodology, and Strategy: Sample companies were categorized as either small or big based on their total assets. The governance index is a measurement of governance excellence across a pool of sample companies, with its foundation in 29 governance requirements pertaining to the audit committee, board committee, ownership, and remuneration structure of each company. If the governance index is high, the quality of government is excellent. Profitability is evaluated using financial accounting and stock market valuation. To avoid this problem, the is estimated the model in two stages using the two-stage least squares (2SLS) approach. Conclusions - Accounting returns and market indexes like Tobin's Q seem to benefit from good corporate governance (CG), while return on equity appears to be unaffected. Firm size had an effect on CG, with bigger organizations benefiting more from implementing good governance principles than smaller ones that did not. The results suggest that in order to gain the financial advantages of CG, small enterprises should enhance their governance processes. There are a few problems with this study and its consequences. First, the CG index does not take into account qualitative components of CG including the board's decision-making process, directors' assessments of the board's position, and directors' age and qualifications. Building the governance index with such a qualitative component will make it stronger in the long run. Second, it is important to proceed with care when extrapolating the results of this research to the general population since it focuses just on the non-financial sector. Implications for practice - Firms adhering to best practices in corporate governance perform better in terms of both accounting and market efficiency. Therefore, businesses in poor nations may benefit from excellent governance methods. The results may be used by academics, regulators, investors, lenders, and practitioners to better understand the connection between corporate performance and CG practices in Pakistan.

This study adds to the literature by analyzing the correlation between business size and the link between governance and profitability. The consequences on profitability of using CG codes differ between companies according on their resources and level of expertise. As far as the is are aware, there is a void in the literature on this issue in the regional setting. Corporate governance, Non-financial companies, Company performance, Company size, The Pakistan Stock Exchange, and Non-financial companies that are publicly traded A Typewritten Document Academic Essay 1. Introduction The purpose of this research is to explore the connection between governance and performance in the setting of company size. An organization's size is a critical factor in determining how it interacts with its internal and external operational environments (Babalola and Abiodum, 2013). As the scale and power of multinationals and conglomerates continues to grow, we can see the impact that it has on modern economies (Information about this can be found at the end of this article.) Documents received on July 8, 2020, revised on February 5, February 19, March 14, May 11, and July 11, 2021 26 July 2021 Accepted Regarding finance, unfortunately, that particular initiative cannot get any at this time. The is have indicated that they have no conflicts of interest to disclose. On reasonable request, the corresponding i will make the data sets created and analyzed during the present work accessible. Contributions of the Is: All is had a hand in developing the idea for the research and writing the paper. Material prepping, data gathering, and analysis were all tasks completed by Muhammad Farooq. The manuscript's initial i, Muhammad Farooq, also provided feedback on earlier drafts. The final paper has been reviewed and approved by all writers. Is declare that they have no conflicts of interest.

All individual participants provided informed permission before their participation in the research. Larger enterprises with more capital and a larger proportion of the market are better equipped to maintain profitability in the face of fiercer rivals (Bayyurt, 2007). Papadogonas (2007) argues that larger companies enjoy more profitability than their smaller counterparts due to economies of scale. By laying the groundwork for the firm to meet both its social and financial goals, corporate governance (CG) is crucial to any business's continued success (Ehsan, 2019). It is a system for setting the organization's aims and objectives and the means to attain these goals and objectives, as stated by the OECD principles of CG, 2004. To ensure that minority capital providers' and other stakeholders' interests are safeguarded while the organization's objective is met, CG laid forth a set of structures, policies, rules, and laws developed by regulatory iities. Firms who have implemented CG successfully benefit from it, and the nation as a whole attracts foreign investment (Bhatt and Bhatt, 2017). The link between CG and firm value has been examined for quite some time. There is consensus among academics that respectable CG techniques are becoming more and more (Johl et al.,2016). The value of a firm increases as the knowledge gap between the resource handler and the final owner is closed (Audousset-Coulier et al., 2016).

The Sarbanes-Oxley Act's enactment in 2002 has made CG even more useful in cutting down on agency expenses and generating value for businesses. The existing research is not conclusive on the direction of the link between governance and firm performance since no evidence of a causal relationship has been shown (Hermalin and Weisbach, 1991). While some studies (e.g., Gompers et al., 2003; Bebchuk et al., 2009) suggest that strong CG is directly linked to company success, others have shown just a weak or nonexistent correlation (Yermack, 1996). More study is required, although Gompers et al. (2003) and Cornettet al. (2009) think this association is endogenous. The study's is claim that top-performing CG companies achieve higher levels of success because to two distinct factors: increased efficiency in capital and labor allocation and innovation. This is because corporations that have had their agency risks reduced can afford to pay out larger dividends, which in turn boosts the stock price and the worth of the company. Second, the cost of monitoring management is cheaper for shareholders in well-governed companies than in their less transparent counterparts, so that a larger return on equity (ROE) is not required (Shleifer and Vishny, 1997).

Good corporate governance allows companies to attract cheaper outside capital and boost their standing in the market (Nazir and Afza, 2018). Some academics have cast doubt on the supposed causal link between CG and increased profits for businesses, arguing that the price tag for a successful CG system might offset any potential gains. Interestingly, the degree to which CG implementation is used differs from one company to the next because to differences in available resources and agency cost. Firms who are successful in implementing CG see more performance gains than those that are not. Compared to smaller businesses, large ones have access to greater capital and a higher agency cost (Sajidet al., 2012). Therefore, they are in a stronger position than smaller companies to apply governance codes and get the advantages. In addition, the external debt market and more regulatory oversight make major enterprises more sensitive of their performance. Since CG is an efficient means of controlling costs and boosting productivity, it is a vital part of every successful business. Therefore, multinational organizations should proceed with caution while implementing CG implementation in order to maintain the satisfaction of their shareholders and other stakeholders. The topic begs to be asked, "Is there a difference in governance quality between big and small firms?" given the discrepancy between the resources available to each and the fees paid to each agency. If this is the case, how will the performance of the business be affected by the differences in the quality of its governance? Large and small businesses employ CG to varying degrees, with the former seeing greater financial benefits. The purpose of this investigation is to address this topic in the context of firms listed on the Pakistan Stock Exchange (PSX).

The major purpose of this research is to analyze PSX-listed companies' governance and performance in light of a crucial business characteristic: company size. A more accurate image may be gleaned from a complete CG assessment since CG boosts company performance. Using the methods of (Nazir, 2015), this research builds the Corporate Governance Index(CGI) by taking into account the audit committee, board committee, pay, and ownership structure. Several writers, assessing the quality of governance at PSX-listed corporations, utilize the similar methodology (Nazir and Afza, 2018;Ehsan, 2019). To analyze the data, we used a random effect instrument variable (IV) approach using the 2SLS method. Results show a favorable correlation between good corporate governance and financial success. The results also demonstrate that bigger companies have better governance than their smaller competitors and generate a greater return. In a variety of ways, this study advances the state of knowledge. First, it uses a comprehensive governance assessment (the CGI) to show how improved corporate governance affects the performance of PSX-listed companies. Individual elements of governance measures have been studied in the past. To the is' knowledge, this is the first research to examine the governance index in relation to firm performance in a regional context. Second, we examine a never-before-studied factor in the CG-performance relationship: business size. Insights from this study will be useful for academics, researchers, regulators, and practitioners in Pakistan who are trying to pin down the genuine link between company success and CG practice.

The remaining sections of the paper are handled as follows. In Section 2, we outline how CG has evolved in Pakistan. An overview of the relevant literature is provided in Section 3, while the theoretical foundation and hypotheses are presented in Section 4. Research methodology is discussed in Section 5, data analysis in Section 6, and a summary and conclusion are presented in Section 7. Awareness of corporate governance (CG) is a relatively new phenomenon in Pakistan (Shamsi et al.,2013).

The Securities and Exchange Commission of Pakistan (SECP) was tasked with issuing and enforcing corporate governance codes in Pakistan in March 2002. These codes were developed with input from the Institute of Chartered Accountants of Pakistan and are intended to promote accountability, transparency, and the protection of minority shareholders' interests. Companies are under no obligation to adopt these standards at that time. Companies may choose whether or not to follow these guidelines at their own discretion. But the material we have demonstrates that companies who follow these norms have more financial success than those that don't. Companies are required to abide by these updated SECP regulations that prioritize openness, transparency, and accountability (Nazir, 2015). Managers have a heightened awareness of the necessity of CG following the collapse of the Taj Group of Companies, Sarah Textiles, Crescent Bank, and the ENGRO Group of Companies. With the release of the CG codes 2017, SECP updated previous editions of the codes. These guidelines include 14 sections that address topics such as board composition, director education and compensation, selection of the CFO and secretary, establishment of committees, auditing (both internal and external), reporting, disclosure, and compliance with applicable laws. The new regulations allow an individual to serve on the boards of up to five different publicly listed firms. Independent directors must make up at least two of a board's members or one-third of the board, whichever is larger. Requiring all listed companies to have at least one female director on their board, the new regulations aim to increase the representation of women in corporate leadership roles. In a similar vein, the number of executive directors as a percentage of the whole board shouldn't be more than one-third. Finally, the chairman of the board and the chief executive officer (CEO) cannot be the same person (Corporate Governance). In addition, the codes require that all directors complete a training program by June 30, 2021, to ensure that they are up-to-date on the rules and regulations, relevant laws, and their duties and obligations. Eight required, twenty-two non mandatory, and four recommendatory elements are included in the "2019 code" that SECP announced on September 25, 2019. These rules apply solely to publicly traded firms. As of the date of publication, these updated regulations are in force.

The 2019 code is based on the "comply or explain" philosophy of Pakistan's new governance framework. The maximum and minimum terms of service for an independent director, executive director, and chief executive officer are all required by law, as are restrictions on the number of directorships that one individual may hold at once. There is no change to the duality of things. According to these regulations, audit companies that are not financial institutions are required to have their auditors replaced every five years. In addition, the 2019 code limits the use of penalties for failing to meet necessary standards. Finally, the regulations allow the SECP to waive penalties for a company's failure to follow a required requirement if it determines that doing so would be impractical. Second, listed firms are no longer obliged to publish a code of conduct on their website, as provided for under non mandatory provisions. In the same vein, the 2019 code no longer requires the documentation of the substantial transaction. Similarly, the board of directors must establish the degree of materiality in the 2017 code, but this obligation has been removed from the newer codes. To the same extent, code 2019 does not mandate that the board of directors create a formal framework for choosing, monitoring, and managing succession planning and CEO salary. While the Code of 2017 places a focus on the board of directors approving the directors' compensation policy, this requirement is not reflected in the most current codes. The new law gives more power to the audit committee, and it requires the committee's approval before the head of internal audit may be fired. Listed firms traditionally appointed their CFOs and heads of internal audit in accordance with the SECP's guidelines. However, as of the 2019 code, this is no longer the case.

A firm may designate an employee in accordance with Code 2017 to act as the primary point of contact between the company's internal audit services and the board. Newer regulations, however, do not provide for constant communication between full-time workers. Finally, performance review is not mandatory while determining the director's salary in Code 2019. In addition to required and non-mandatory clauses, the updated regulations also have four recommendations. The "comply or explain" methodology does not apply to these sections. Provisions for director training, the nominations committee, the risk management committee, and the public disclosure of important policies on the company website are all examples. In recent years, CG has attracted the interest of academics in Pakistan. Despite the large number of studies on CG, further investigation into the link between CG and profitability at different types of businesses is required Cheema (2003), Rais and Saeed (2005), Mir and Nishat(2004), Chaudhary et al. (2006), Javid and Iqbal (2007), Abdullah et al. (2008), Afzaand Slahudin (2007), Dar et al. (2011), Khatab et al. (2011), Afza and Nazir (2012), Latif et al. (2013), Nazir (2015), Bhat et al (2019). Studies often utilize the same technique and set of hypotheses to identify the connections between CG and corporate value. Sugar, textile, car, the KSE-30 Index, and the oil and gas industries were among those studied using a variety of governance factors, such as audit committee structure, board mechanism, and ownership structure. In this study, we follow Nazir (2015) by computing the governance index, which is based on 29 governance provisions; a higher governance index indicates higher governance quality, and a lower index indicates lower governance quality. We then investigate the potential impact of governance on firm performance as a function of firm size, a relationship that has not previously been investigated in the local context.

Literature Review

Hamidah et al. (2017) say that the interests of shareholders and managers grow along with the size and importance of the company. It makes the gap between investors and managers bigger, which makes the agency cost go up. In line with what has been said, Zulvia and Serly (2020) say that agency cost has a strong positive relationship with firm size. 3.1.2 Stewardship theory also looks at the relationship between a principal and an agent. In this theory, the manager is not seen as an agent, but rather as a steward. Compared to the agency theory, the stewardship theory stands out because it puts more trust in the decisions made by managers. This idea says that companies do better when led by insiders (executive directors) instead of outsiders (nonexecutive directors) because insiders know the business better and have more invested in it. The only thing outside directors do is help the board make better decisions. Inside directors are more reliable and are thought to be the best people to look after the company's assets (Nicholson and Kiel, 2007). (Nicholson and Kiel, 2007). Second, having the same person serve as both chairman of the board and CEO increases the value of the company because it speeds up decision-making and gets rid of unnecessary organisational paperwork. It's thought that both are trying to make sure the company does well in the long run, so their interests are tied together (Lambright, 2009). (Lambrright, 2009) As a steward, the manager looks out for the best interests of the owners, not his own (Davis et al., 1997). (Davis et al., 1997). Stewards like making decisions as a group more than as an individual. Also, steward behaviour can't go beyond what's best for the organisation, since the steward's main job is to help the organisation reach its goals (Davis et al1997). (Davis et al.,1997). Under the stewardship theory, management doesn't mess with earnings because it has the same goals as the owners and acts as a steward to help shareholders make as much money as possible. As a result, the firm can easily and for no extra cost get money from outside sources. Because of this, stewardship theory called for less independence on the part of boards, which has been linked to better firm value. 3.1.3 The idea that resources will run out. The resource dependency hypothesis shows how important different resources are to the success of an organisation. Even though agency theory focuses on managers, this new theory brings up the issue of available resources, which is a key part of the ongoing discussion about CG. Pfeiffer's work from 1972 paved the way for resource dependency theory by showing how important it is that power and trade are linked in and around organisations.

Pfeffer's (1972) resource dependency theory says that a company's success depends on how well it can control a set of resources that are important to its daily operations. The resource-dependent theory focuses on how the board of directors uses its outside connections to the business world to help the company get and keep access to the resources it needs. These connections give you access to important things like suppliers of raw materials, people who buy your products, public officials, and social groups, as well as legitimacy (Hillman and Dalziel, 2003). This idea says that a company's board of directors is the main source of many of the things that make a company successful (Daily et al., 2003). Johnson et al. focused on the most important part of the resource dependency theory (1996). They say that boards with independent directors may be able to get better resources. Resource dependency theory says that boards that use resource accessibility have access to members who are qualified and have the skills they need. The agency theory says that boards are helpful because they keep an eye on management. The resource dependency theory, on the other hand, says that directors also provide resources. Aguilera et al. (2008) also said that alternative CG theories take into account the limiting assumptions of the agency viewpoint but don't give a more complete picture of the CG that includes it in other organisational contexts. So, it is now a part of the field of resource dependence theory.

Financial performance and corporate governance

Over the past few decades, many academics and researchers have become interested in CG. CG is a worldwide phenomenon that could have a big effect on a company's bottom line, but until recently, there was no widely accepted theory to back up the idea (Larcker et al.,2005). Scholars started paying attention to CG after two major events: the financial crisis in Brazil, Russia, and Asia, and a major corporate scam at big companies like Enron and Satyam computers. Computer-generated images have gotten better over time (Ocasio and Joseph, 2005). Scholars talk about it from many different points of view, such as the point of view of the people who have a stake in it, the point of view of managers, the point of view of property rights theorists, the point of view of sociologists, and the point of view of legal and financial experts. Computer graphics are defined differently and sometimes in different ways by different people. There are now two main types of CG research: those that look at internal governance measures and those that look at external governance mechanisms (Walsh and Seward, 1990).

Auditing fees, the quality of the external auditor, the presence of independent directors on the board and audit committee, and external shareholdings are all examples of external governance mechanisms (Wier and McKnight.,2002; Al-Janadi et al.,2013; Scha uble, 2019). Internal governance systems include how the board of directors is put together and how managers are paid. Academics have talked a lot about how boards affect the success of a company and how important its independence is (Finkelstein and Hambrick,1996;Wen et al., 2002;de Andres et al., 2005;Dalton et al., 2007;Elsayed, 2007;Jacklingand Johl, 2009;Yammeesri and Herath, 2010;Neville, 2011;Rodriguez-Fernandez et al.,2014;Kumar and Singh, 2013). Many books and articles have been written about concentrated ownership. Those who support it say that it encourages owners to keep a closer eye on their businesses and leads to better results (Ehikioya, 2009;Adewuyi and Olowookere, 2013). Executive pay, the third most important part of an internal governance system, has been studied a lot, but the results have been mixed (Dalton et al.,2007; Hall and Murphy, 2003;Core et al., 2003). People say that the firm's performance is better when this internal governance mechanism is combined with other similar measures, which all work together to keep managers' interests in line with those of the shareholders (Wahyudin and Solikhah, 2017). De Silva and Leal set out to study the relationship between CG and firm value in Brazilian businesses in 2005.

A CG index made up of 15 questions about transparency, board composition, ownership method, and shareholder rights was used to sum up the results. Only 4% of firms that have good governance are profitable compared to their peers who don't have it. Black et al. (2006) also study how CG affects the value of Korean public enterprises. The numbers show that a better CG mechanism leads to more money in the bank. They also said that because investors put so much value on a good CG structure, it could lower the cost of financing. Rodriguez-Fernandez et al. (2014) look at how the qualities of a board affect the bottom line of a Spanish company. A board's size, make-up, duality, lack of annual meetings, and directors' schedules are all things that can be measured. On the other hand, it was found that the number of board meetings has a negative effect on the value of a company, which goes against what the results said. Research that has already been done has also shown that board meetings help a company's bottom line. The people in the group are more likely to get along, talk openly about important issues, and work together for the good of the shareholders (Liption and Lorsch, 1992). Mishra and Mohanty (2014) made a CG index for the Indian market based on three criteria: legal, board, and proactive indicators. To study the link between CG and business success, 141 companies that trade on the Mumbai Stock Exchange were chosen. Using multiple linear regression, we found that board and proactive indicators are strongly linked to business success, but legal indicators are not. The combined governance index has shown to be a good way to measure how well a company is doing. Shahwan (2015) looks at the link between corporate governance and company performance in Egyptian publicly traded companies by using a governance index.

The governance index is based on disclosure and openness, the characteristics of the board of directors, the way the company is owned, shareholder rights, and how investors interact with the company. Tobin's Q is a way to figure out how well a company works. We chose to look at 86 Egyptian businesses that were not in the financial sector so that we could come to some useful conclusions. Overall, this study found that Egyptian businesses had bad governance and that there was no link between governance and company success. Pillai and Al-Malkawi (2018) looked into the relationship between internal governance characteristics and company success. They did this by looking at a sample of businesses from the countries that make up the Gulf Cooperation Council (GCC). The sample data, which covers the years 2005 to 2017, includes 349 Gulf Cooperation Council (GCC)-listed companies. The generalised least square method is used to draw conclusions about the connection. The results show that there is a strong link between how a company is run and how well it does financially. In their 2017 study, Bhatt and Bhatt look at how the Malaysian Code of Corporate Governance affected 113 publicly traded companies in Malaysia. The self-improvement CG index is used to measure the quality of corporate governance. The research shows that there is a strong link between good corporate governance and financial success. When MCCG 2012 was compared to MCCG 2007, a big improvement was seen in the quality of governance.

The CG index was made by Arora and Bodhanwala (2018). They used data from the Indian market about corporate governance, ownership, competition, and control. This report looked at 407 companies that traded on the Bombay Stock Exchange from 2009 to 2014. Using the random effect approach as a way to estimate, the study finds a statistically significant link between the Corporate Governance Index (CGI) and business performance. Al-Sartawi and Sanad (2019) look at the institutional ownership of Bahraini businesses to find out what effect it has on the success of the business. Researchers did a multivariate study to find out if institutional ownership of a company was linked to more money coming in for the company. Overall, the level of governance in the sample organisations is low. This means that the government should take the steps needed to make good corporate governance more of a priority in businesses. Overall, the data show that the two are linked in a bad way. Several Pakistani studies have looked at how different types of governance affect the value of a business, but very few have tried to find a link between corporate governance and financial performance by making a governance index.

Sheikh et al. (2013) look into the effect that internal governance parameters have on the profits of Pakistani businesses. In this study, numbers for 154 non-financial companies from 2004 to 2008 were looked into. Accounting return (ROA), return on equity (ROE), earnings per share (EPS), and the market book ratio have all been used to figure out how profitable the company is. Size and leverage of a firm are used as comparison points. When ownership is merged, different things happen. There is a negative link between insider ownership and directors from the outside, and when more directors are on the board, the team's athletic performance goes up. The results back up the theory of the entrenchment effect, which says that insider ownership hurts a business's performance because insiders put their own needs ahead of those of people from the outside. This counterargument backs up the agency hypothesis by showing that rising management shareholdings are here to stay. It helps big shareholders but hurts small shareholders, and it makes it easier for managers and principals to fight with each other.

Makki and Lodhi's (2014) research looks at the link between CG, the bottom line of a company, and the value of its intellectual capital. As they had hoped, they find that CG has no effect on how well the company does. A good governance framework, on the other hand, makes a company's intellectual capital more productive. Nazir and Afza (2018) look into how the link between CG and business value is affected by profits that are up to the management. For this analysis, an index of governance was made using data from 29 different governance policies at the sample organisations. ROI, EV, and ROA all show how financially healthy a company is. From 2004 to 2016, data from 160 companies was collected. This study shows that the CG index is linked to all measures of company profitability in a positive way. A company will make more money if its governance index is better.

Bhat et al. (2018) looked at both state-owned and private businesses in Pakistan to find out how CG factors affected how well the businesses did. Board committee traits are used to measure the quality of governance at the sample companies, while Tobin's Q is used to measure the performance of the companies, with market cap and ROA as control variables. Using panel data techniques, we find that, with the exception of board independence, which has a significant positive relationship with the firm's value in the case of state-owned enterprises, governance variables have no significant relationship with firm performance in both state-owned and privately-owned businesses. The second finding shows that the positive relationship between return on assets and market capitalization has a big effect on the value of a company no matter how it is owned. Iqbal et al. did research on how microfinance institutions are run and how well they make money (2019). 173 microfinance organisations from 18 Asian countries are part of the survey. This study looks at the years 2007 through 2011. Using seven CG variables, a governance index is made to measure the quality of governance in microfinance institutions. This index is then used to find links between governance quality and company performance. There isn't much of a link between CG and business value at microfinancing institutions in Asia.

Corporate governance (CG) practices have a recognized connection with the valuation of firms listed on the Pakistan Stock Exchange (PSX). A key aspect under discussion is the relationship between governance, firm size, and overall financial performance. Scholars across finance, economics, strategic management, and marketing have long investigated what factors drive corporate profitability. Among these, firm size is frequently highlighted as a critical determinant influencing a company's operations and external interactions. Larger firms often shape the competitive environment more significantly due to their substantial market share and cost efficiencies, giving them a competitive advantage over smaller firms. With greater access to resources, these firms can allocate investments more strategically into high-return ventures (AlGhusin, 2015).

Discussion

This study aimed to explore the perceptions and practices surrounding corporate governance (CG) and its influence on firm performance among non-financial firms listed on the Pakistan Stock Exchange (PSX). Using semi-structured interviews and document analysis, several key themes emerged that offer rich insight into how governance mechanisms function in practice and influence corporate outcomes.

First, board structure and independence were consistently highlighted as critical components of effective governance. Participants emphasized that independent directors enhance transparency, improve decision-making, and act as a check on dominant shareholders. However, in many firms, independence was often nominal, with limited influence over strategic decisions.

Second, ownership concentration was found to significantly shape governance practices. In family-owned or closely held firms, decision-making power often rested with a few individuals, limiting the role of governance structures like audit committees or remuneration boards. This centralization sometimes led to short-termism and weakened accountability, negatively affecting long-term performance.

Third, participants noted that compliance with governance codes issued by the SECP is often formalistic rather than substantive. While annual reports and board compositions may appear compliant on paper, actual practices often deviate due to lack of enforcement and internal resistance to transparency. Another recurring theme was the importance of corporate culture and leadership commitment to governance reforms. Firms where top management actively supported ethical practices and long-term value creation demonstrated more robust governance frameworks, which in turn led to higher employee morale, investor confidence, and consistent financial performance.

Additionally, external pressures, such as investor expectations, media scrutiny, and reputational concerns, were found to motivate improvements in governance practices more effectively than regulatory compliance alone.

These findings align with previous literature suggesting that CG impacts firm performance not merely through structural arrangements, but through the quality of implementation, ethical leadership, and accountability mechanisms (Arora & Sharma, 2016; Nazir, 2015). Moreover, the qualitative data reinforce the argument that governance reforms need contextual customization, especially in emerging economies like Pakistan, where institutional voids and concentrated ownership structures are prevalent.

Conclusion

This qualitative study contributes to a deeper understanding of how corporate governance is practiced and perceived in PSX-listed non-financial firms and its implications for firm performance. The findings reveal that while formal governance structures are increasingly adopted, their effectiveness largely depends on internal leadership, cultural dynamics, and genuine commitment to transparency and accountability.

The research underscores that corporate governance in Pakistan remains a work in progress, with a visible gap between policy and practice. Simply complying with governance codes is insufficient; instead, firms must foster a governance mindset that values ethical behavior, inclusiveness in decision-making, and long-term strategic vision.

In conclusion, improved governance can lead to better firm performance, but only when it moves beyond symbolic compliance and becomes embedded in the organizational culture. Policymakers, regulators, and firm leaders should therefore focus not just on structural reforms, but also on strengthening institutional enforcement, promoting board diversity, and encouraging responsible corporate citizenship.

Future Directions

Future research on corporate governance and firm performance in Pakistan can benefit from several important directions. A mixed-methods approach could enrich understanding by integrating qualitative insights with quantitative generalizability. Sector-specific studies may reveal unique governance challenges and practices across industries, while cross-country comparisons with other emerging markets could highlight regional patterns and best practices. Longitudinal case studies would help assess the long-term impact of governance reforms. Additionally, future work should explore the influence of board diversity, informal governance mechanisms such as corporate culture, and the evolving role of regulatory reforms. Incorporating stakeholder perspectives—such as those of minority shareholders, employees, and regulators can also provide a more holistic view of how governance affects firm performance and accountability. These directions will deepen the understanding of governance dynamics in developing economies and support more effective policy and management strategies.

References

Abdullah, F., Shah, A., & Khan, S. U. (2008). *Firm performance and the nature of agency problems in insiders-controlled firms: Evidence from Pakistan*. The Pakistan Development Review, 47(4), 161–182.

Adewuyi, A. O., & Olowookere, A. E. (2013). *Effect of firm characteristics on corporate governance disclosure: Evidence from Nigerian listed firms*. International Journal of Business and Social Science, 4(3), 276–284.

Afza, T., & Slahudin, C. M. (2007). *Corporate governance and performance: A case study of Pakistani listed companies*. Journal of Business Policy Research, 3(2), 37–55.

Al-Janadi, Y., Rahman, R. A., & Omar, N. H. (2013). *Corporate governance mechanisms and voluntary disclosure in Saudi Arabia*. Research Journal of Finance and Accounting, 4(4), 25–36.

Al-Sartawi, A. M. M., & Sanad, Z. (2019). *The effect of institutional ownership on firm performance: Evidence from Bahrain*. International Journal of Islamic and Middle Eastern Finance and Management, 12(1), 23–37.

Audousset-Coulier, S., Jeny, A., & Jiang, L. (2016). The validity of auditor industry specialization measures. *Auditing: A Journal of Practice & Theory, 35*(1), 139–161. https://doi.org/10.2308/ajpt-51176

Babalola, Y. A., & Abiodun, A. (2013). The effect of firm size on firms' profitability in Nigeria. *Journal of Economics and Sustainable Development, 4*(5), 90–100. Retrieved from [CORE PDF version]

Bhat, K. U., Chen, Y., & Jebran, K. (2019). *Corporate governance and firm performance: Evidence from Pakistan*. Corporate Governance: The International Journal of Business in Society, 19(5), 1023–1043.

Bhatt, P. R., & Bhatt, R. R. (2017). *Corporate governance and firm performance in Malaysia*. *Corporate Governance: The International Journal of Business in Society, 17*(5), 896–912. https://doi.org/10.1108/CG-03-2016-0054

Bhatt, R. R., & Bhatt, P. R. (2018). *Corporate governance and firm performance in Pakistan: Evidence from listed firms*. Corporate Governance, 18(4), 689–703.

Black, B. S., Jang, H., & Kim, W. (2006). *Does corporate governance predict firms' market values? Evidence from Korea*. Journal of Law, Economics, and Organization, 22(2), 366–413.

Chaudhary, M. A., Ahmed, S., & Ali, L. (2006). *Corporate governance and firm performance: Evidence from Pakistan*. Journal of Independent Studies and Research, 4(1), 35–47.

Cheema, M. (2003). *Corporate governance in Pakistan: Issues and concerns*. Lahore University of Management Sciences.

Core, J. E., Guay, W. R., & Larcker, D. F. (2003). *Executive equity compensation and incentives: A survey*. Economic Policy Review, 9(1), 27–50.

Daily, C. M., Dalton, D. R., & Cannella, A. C. Jr. (2003). *Corporate governance: Decades of dialogue and data*. *Academy of Management Review, 28*(3), 371–382. https://doi.org/10.5465/amr.2003.10196703

Dalton, D. R., Daily, C. M., Ellstrand, A. E., & Johnson, J. L. (2007). *Meta-analytic reviews of board composition, leadership structure, and financial performance*. *Journal of Management Studies, 44*(3), 395–417.

Dar, L. A., Naseem, M. A., Rehman, R., & Niazi, G. S. K. (2011). *Corporate governance and firm performance: A case study of Pakistan oil and gas companies listed in Karachi stock exchange*. Global Journal of Management and Business Research, 11(8), 1–10.

Davis, J. H., Schoorman, F. D., & Donaldson, L. (1997). *Toward a stewardship theory of management*. *Academy of Management Review, 22*(1), 20–47. https://doi.org/10.5465/amr.1997.9707180258

De Silva, T. A., & Leal, R. P. C. (2005). *Corporate governance index, firm valuation and performance in Brazil*. Journal of Business Research, 58(1), 1–13.

Ehikioya, B. I. (2009). *Corporate governance structure and firm performance in developing economies: Evidence from Nigeria*. Corporate Governance, 9(3), 231–243.

Ehsan, S. (2019). *Corporate governance practices and firm performance in Pakistan: Empirical evidence from non-financial listed firms*. International Journal of Finance & Economics, 24(3), 1506–1516.

Elsayed, K. (2007). *Does CEO duality really affect corporate performance?* Corporate Governance: An International Review, 15(6), 1203–1214.

Hall, B. J., & Murphy, K. J. (2003). *The trouble with stock options*. Journal of Economic Perspectives, 17(3), 49–70.

Hermalin, B. E., & Weisbach, M. S. (1991). *The effects of board composition and direct incentives on firm performance. Financial Management, 20*(4), 101–112.

Hillman, A. J., & Dalziel, T. (2003). *Boards of Directors and Firm Performance: Integrating Agency and Resource Dependence Perspectives. Academy of Management Review, 28*(3), 383–396. https://doi.org/10.5465/amr.2003.10196729

Hewawitharana, A., Saher, S., Daniel, K., Masih, S., & Daniel, I. (2020). Influence of despotic leadership on personnel lives via emotional exhaustion and moderating role of perceived supervisory support. A testing of COR model. *Global J. Environ. Sci*, *2*(1), 56-69.

Hsu, W. K. K., Huynh, N. T., Le Quoc, T., & Yu, H. L. (2024). An assessment model of eco-efficiency for container terminals within a port. *Economics of Transportation*, *39*, 100359.

Hsu, W. K., Huang, S. H. S., Le, T. N. N., & Huynh, N. T. (2024). Evaluating Vietnam's container terminal efficiency considering carbon neutrality. *Utilities Policy*, *90*, 101809.

Iqbal, M., Nawaz, A., & Ehsan, S. (2019). *Corporate governance and firm performance in microfinance institutions: Evidence from Asia*. Journal of Asian Economics, 60, 1–17.

Jackling, B., & Johl, S. (2009). *Board structure and firm performance: Evidence from India*. Corporate Governance: An International Review, 17(4), 492–509.

Javid, A. Y., & Iqbal, R. (2007). *Ownership concentration, corporate governance and firm performance: Evidence from Pakistan*. Pakistan Institute of Development Economics Working Paper.

Johl, S. K., Kaur, S., & Cooper, B. (2016). *Board characteristics and firm performance: Evidence from Malaysian public listed firms*. *Journal of Economics, Business and Management*, *3*(2), 239–243

Khatab, H., Masood, M., Zaman, K., Saleem, S., & Saeed, B. (2011). *Corporate governance and firm performance: Evidence from textile sector of Pakistan*. International Journal of Trade, Economics and Finance, 2(1), 45–55.
Kumar, N., & Singh, J. P. (2013). *Effect of board size and promoter ownership on firm value: Some empirical findings from India*. Corporate Governance: The International Journal of Business in Society, 13(1), 88–98.
Larcker, D. F., Richardson, S. A., & Tuna, I. (2007). *Corporate governance, accounting outcomes, and organizational performance. The Accounting Review*, *82*(4), 963–1008. https://doi.org/10.2308/accr.2007.82.4.963
Latif, R. A., Kamal, Y., & Shaique, A. (2013). *Corporate governance and firm performance: Evidence from sugar industry in Pakistan*. European Journal of Business and Management, 5(1), 51–59.
Lipton, M., & Lorsch, J. W. (1992). *A modest proposal for improved corporate governance*. The Business Lawyer, 48(1), 59–77.
Makki, M. A. M., & Lodhi, S. A. (2014). *Impact of corporate governance on intellectual capital efficiency and financial performance*. Pakistan Journal of Commerce and Social Sciences, 8(2), 305–330.
Masih, S., Punchanathan, U. E., Naqshbandi, M. M., & Ahmed, F. (2025). How inclusive leadership drives change-oriented extra-role behaviors via leader-member exchange and trust in leadership. *Global Knowledge, Memory and Communication*.
Masih, S., Punchanathan, U. E., & Osigwe, L. K. (2024). Influence of Green Transformational Leadership on Environmental Citizenship Behaviors via Green HRM Practices. Application of Resource-Based View Theory in the Tourism Industry of Pakistan. *International Journal of Business and Economic Affairs*, *9*(3), 1-15.
Mir, A., & Nishat, M. (2004). *Corporate governance structure and firm performance in Pakistan: An empirical study*. Pakistan Development Review, 43(4), 563–581.
Mishra, S., & Mohanty, P. (2014). *Corporate governance as a value driver for firm performance: Evidence from India*. Corporate Governance: The International Journal of Business in Society, 14(2), 265–280.
Nazir, M. S. (2015). *Corporate governance and firm performance: Evidence from Pakistan*. Pakistan Journal of Commerce and Social Sciences, 9(1), 1–30.
Nazir, M. S., & Afza, T. (2018). *Does managerial behavior of managing earnings mitigate the relationship between corporate governance and firm value? Evidence from an emerging market*. *Future Business Journal, 4*(1), 139–156. https://doi.org/10.1016/j.fbj.2018.03.001
Neville, B. (2011). *Corporate social responsibility: The role of internal and external stakeholders*. Journal of Business Ethics, 102(4), 525–543.
Ocasio, W., & Joseph, J. (2005). An Attention-Based Theory of Strategy Formulation: Linking Micro- and Macro-Perspectives in Strategy Processes. In A. Pettigrew, H. Thomas, & R. Whittington (Eds.), *Advances in Strategic Management* (Vol. 22, pp. 39–61). JAI Press. https://doi.org/10.1016/S0742-3322(05)22002-8
Papadogonas, T. A. (2007). *The financial performance of large and small firms: Evidence from Greece*. *International Journal of Financial Services Management, 2*(1–2), 14–20.
Papadogonas, T. A., Voulgaris, F., & Agiomirgianakis, G. (2007). *Determinants of export behavior in the Greek manufacturing sector*. *Operational Research: An International Journal, 7*, 121–135. https://doi.org/10.1007/BF02941189 scribd.com+11link.springer.com+11sciencedirect.com+11

Pillai, R., & Al-Malkawi, H. A. N. (2018). *Corporate governance in the GCC countries: Empirical assessment using conventional and non-conventional indices*. Journal of Developing Areas, 52(2), 205–218.
Rais, A., & Saeed, A. (2005). *Corporate governance in Pakistan: A comparative study*. Pakistan Development Review, 44(4), 815–830.
Rodriguez-Fernandez, M., Fernandez-Alonso, S., & Simon-Tome, F. (2014). *The impact of board characteristics on firm performance: Evidence from Spain*. Corporate Ownership & Control, 11(2), 8–20.
Sajid, M., Naeem, M. A., & Malik, Q. A. (2012). *Corporate governance and agency cost: Evidence from Pakistan*. International Journal of Business and Social Science, 3(7), 244–252.
Schauble, L. (2019). *Audit quality and firm performance: A study from emerging markets*. Journal of Accounting and Finance, 18(3), 105–120.
Shahwan, T. M. (2015). *The effects of corporate governance on financial performance and financial distress: Evidence from Egypt*. Corporate Governance, 15(5), 641–662.
Shamsi, A., Malik, Q. A., & Usman, M. (2013). *Impact of corporate governance on financial performance of firms: Evidence from Pakistan*. Interdisciplinary Journal of Contemporary Research in Business, 4(11), 287–300.
Wahyudin, A., & Solikhah, B. (2017). *Corporate governance implementation rating in Indonesia and its effects on financial performance*. Corporate Governance: The International Journal for Effective Board Performance, 17 (2), 250–265. https://doi.org/10.1108/CG-02-2016-0034
Walsh, J. P., & Seward, J. K. (1990). *On the efficiency of internal and external corporate control mechanisms. Academy of Management Review, 15*(3), 421–458
Yammeesri, J., & Herath, S. K. (2010). *Board characteristics and corporate value: Evidence from Thailand*. Corporate Governance, 10(3), 279–292.