Impact of External Governance Mechanisms on Firms' Performance: Evidence from Non-Financial firms listed on Pakistan Stock Exchange

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Abstract

The study's overarching goal is to learn how different kinds of external governance influence company output in Pakistan. This study covers the years 2009 through 2020 and includes 320 corporations that trade on the Pakistan Stock Exchange. It is important to choose businesses that fit certain criteria so the research may be conducted thoroughly. Rule of law, government efficiency, regulatory quality, control of corruption, voice and accountability are the main aspects in the research. In our opinion, these metrics best capture the relationship between governance quality and financial outcomes for companies, therefore we've chosen to focus on them. When it came time to analyse the data, the researchers turned to STATA, a widely used statistical tool. The primary objective is to study and assess the connections between the aforementioned components. The relationship between the elements has been assessed using return on assets as a performance indicator.

Keywords: country level governance, performance, regulatory quality, non-financial sector, Pakistan Stock Exchange. voice and accountability, government effectiveness, rule of law, control of corruption, return on assets

Background of the study

The performance of 320 companies registered on the Pakistan Stock Exchange between 2009 and 2020 is examined in this study, along with the impact of various external governance systems. The findings from the many studies conducted on the PSE are crucial for the management of the external governance system. Much of the media coverage this decade has been on how other entities' regulations have played out. There is need to understand the dynamics of external governance in relation to the performance of the companies listed in Pakistan Stock Exchange. It is quite evident from the research that there are around 320 listed companies and each company has different governance framework, there is need to develop an understanding to examine the performance of companies over the period 10 years.

Several data analyses have yielded particular outcomes regarding the rule of law, regulatory quality, government effectiveness, voice and

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accountability, and control of corruption. Academics and businesses in Pakistan may benefit from this research since it clarifies the link between public policy and business success. This contribution to the field of business administration enhances our understanding of factors influencing corporate performance, providing valuable insights for policymakers to formulate strategies fostering a conducive environment for businesses in Pakistan. The research signifies the need to strengthen the government support structures, as suggested by the study, as it unlock the full potential of companies, promoting economic growth in the country. Overall, this research serves as a crucial resource for scholars, policymakers, and business professionals, offering guidance for decision-making to improve corporate performance in the Pakistani context.

Problem Statement

The role of government policies in influencing company performance has gained significant acknowledgement, yet empirical research specifically addressing this connection in the context of Pakistan remains rare. This research fills that knowledge gap by analyzing the effect of government policies on the financial performance of Pakistan Stock Exchange companies from 2009 to 2020. This study seeks to shed light on the crucial role of external governance in influencing corporate outcomes in Pakistan by investigating the relationship between ROA (a performance metric), variables such as government stability, regulatory quality, law and order, corruption control, voice and accountability, and corporate outcomes in the country.

Study Gap

Developing nations like Pakistan's have seen a dearth of studies examining the impact of external governance frameworks on company profitability. Our knowledge of how external governance concerns impact company performance in Pakistan is limited because of a dearth of environment-specific data. This research intends to fill that void by investigating how Pakistani businesses could benefit from robust external governance in terms of their bottom line.

Research centres that research Pakistan's foreign policy Few studies have examined the relationship between external governance and company performance in emerging markets, such as Pakistan's. Foreign governance processes in Pakistan, a non-industrialized nation, cannot be understood by extrapolating results from other contexts without first considering the country's distinctive institutional and economic makeup.

The claims made by theoretical models that external governance mechanisms may significantly impact corporate performance are not supported by facts from Pakistan. To address this knowledge gap, this study will collect empirical data on the correlation between external governance and firm performance from 320 companies listed on the Pakistan Stock Exchange between 2009 and 2020.

This research aims to fill a gap in the literature and enhance our knowledge of corporate governance in emerging countries by measuring the effect of external governance systems on Pakistani companies' performance. In order to aid Pakistani firms in their quest for growth and progress, policy choices and strategic initiatives might be informed by the findings of this study.

Shareholders place a premium on a company's legitimacy, which is in turn tied to its efficiency and success. If the company's performance goes up, it means it's doing a good job for its shareholders and owners. A key component of sound corporate governance is harmony between the company's leadership and its stockholders (Rezaee, 2007). Institutional ownership of a company may lead to reduced principal-agent conflict, according to Jensen & (Jensen, 1976). The concept is explained by the Surbane Oxlay Act, which clearly and concisely explains the relationship between the principal and agent. Conflicts between shareholders and managers are unavoidable since shareholders act as principals and managers as agents. One example of a principle-agent conflict is the agency dilemma, which occurs when management puts their own interests ahead of shareholder interests. From an agency theory perspective, corporate governance processes allow firms to monitor managers' activities and reduce problems with the principal-agent relationship. According to Hussain (2019), reducing agency expenditures leads to a decrease in agency issues, which ultimately increases the company's worth.

The steward's efforts are favorably associated with the corporation's success, according to stewardship theory. According to Bhat (2018), companies gain from larger boards due to the increased variety of information, experience, and expertise that accompanies it. It is beneficial for business when managers have a stake in the company since they are more inclined to prioritize its success. Cadbury (1992) states that corporate governance is the method by which a business is directed and controlled. Numerous things may influence a company's performance. In their respective works, Gillan (2006) and Rezaee (2007) distinguish between two theoretical frameworks that provide guidance to business managers. Typically, there are two types of processes used for governance: internal and external. The first mechanism has an impact on the whole economy, whereas the second is an example of an external factor because it does not directly affect any one organization (Brown, 2011). From what we can see, the company's upper echelons and managers are in charge of the internal governance system, which oversees the whole company and looks out for its best interests. Using this method, you may be certain that everything is proceeding as planned. However, most external governance is governed by market forces, which have a substantial impact on the company's finances.

Objectives

- To examine the impact of voice and accountability on firm performance in Pakistan.
- To investigate the relationship between government effectiveness and firm performance in Pakistan.
- To assess the influence of regulatory quality on firm performance in Pakistan.
- To evaluate the impact of the rule of law on firm performance in Pakistan.
- To analyze the association between control of corruption and firm performance in Pakistan.
- To contribute to the understanding of external governance and its impact on firm performance in Pakistan.

Research questions

- To what extent do voice and accountability influence firm performance in Pakistan?
- What is the relationship between government effectiveness and firm performance in Pakistan?
- How does regulatory quality affect firm performance in Pakistan?
- What is the impact of the rule of law on firm performance in Pakistan?
- Is there an association between control of corruption and firm performance in Pakistan?
- How can external governance mechanisms be enhanced to improve firm performance in Pakistan?

Significance of this study

This study is critical in more ways than one. It is the main concentrate in Pakistan to analyze the effect of the outer administration system on firms' exhibitions. It utilizes a sample of 320 organizations listed on the Pakistan Stock exchange, and it tracks down that voice and responsibility, administrative quality, and law and order are decidedly connected with the presentation of organizations, while government viability and control of corruption are adversely connected with execution.

These discoveries are significant because they propose that outside administration components can assume a significant part in working on the exhibition of organizations in Pakistan. The aftereffects of this study can be utilized to illuminate strategy choices in Pakistan and other developing business sectors.

Literature Review

Numerous forms of external governance may affect the stock market's performance (Boadi, 2017). The sample included thirteen countries over the years 1996–2014. The results of this study corroborate those of other studies showing that foreign governance has a substantial impact on stock market success.

Modugu (2020) looked at the correlation between the quality of the national administrations and the stock markets of GCC members. This study employs panel data and covers the years 2006–2017. While political stability, rule of law, and absence of violence have a positive influence on stock market performance, regulatory quality, voice, and accountability strongly correlate negatively.

To determine the effect of external governance on CSR effectiveness, Abdallah (2021) surveyed 350 companies in 15 developing countries. A strong external governance structure is essential, according to the study's authors, for better CSR performance.

Derg (2022) used a variety of external governance mechanisms to analyze the performance of 200 Chinese-listed enterprises. Companies do well in nations with strong and effective governments, but they have a hard time doing well in nations with fair laws and strong public oversight mechanisms.

So, Hameed (2023) set out to assess 100 publicly traded companies in Pakistan for their financial health by using several frameworks for external governance. When governments are competent and efficient, businesses prosper; when laws are reasonable and public accountability mechanisms are in place, businesses fail.

A more transparent and responsible administration, together with a business-friendly climate, may speed up economic growth and development, according to this study. This discovery lends credence to the idea that the external governance structure of an organization has a substantial impact on its success.

Boadi (2017) lists a plethora of external governance mechanisms that could impact stock market performance. Thirteen nations spanning 1996–2014 were a part of the sample. Consistent with previous research, this analysis found that foreign governance significantly affects stock market performance. This research set out to answer the following question: "Is there a correlation between the quality of the national governments of GCC states and their stock market performances?" According to Modugu, this is the case in 2020. This research makes use of information gathered from panel surveys that ran from 2006 to 2017. According to the study's findings, stock market performance was positively affected by the absence of political turmoil, law and order, and violent occurrences. The stock market reacts to regulators' abilities to be heard and held accountable.

To further examine the effects of internal and external variables, (Dharmastuti, 2013) makes use of data obtained between 2007 and 2010. Company performance seems to be more affected by external corporate governance than by internal corporate governance, according to the available evidence. Internal governance practices do not correlate with business success. Achieving success as a company leader requires balancing internal and external systems. Low (2011) uses data collected between 2002 and 2008 to find out what makes good management and how it connects to the success of financial markets. Findings from the research indicate a correlation between poor governance and poor stock market performance. Stock returns tend to be greater in nations with inept leadership. Despite less-than-ideal governance, investors nevertheless want larger returns because to the heightened risk.

It is more advantageous to include both internal and external processes simultaneously when evaluating performance, according to Cremers (2005), than to focus on just one part of governance. According to Acharya (2011), senior management's rent-seeking may be reduced and investment opportunities can be enhanced by integrating internal and external governance measures. Consequently, this study's overarching goal is to look at how various external corporate governance systems affect company performance. If businesses in developing nations improve their corporate governance, more investors may be willing to put money into their operations (Rajagopalan, 2008).

One component of good corporate governance is providing a fair return to investors (Shleifer, 1997). Corporate governance solutions, claims Johl (2016), boost company value by connecting resource managers with company owners. This study mainly focuses on governance variables at the national level and their implications on corporate performance, however further research on governance components at the company level is needed.

Research Methodology

Using quantitative methods, this study analyses how various external governance measures affected the productivity of Pakistani companies. Looking at longitudinal data from 2009 to 2020 for 320 businesses registered on the Pakistan Stock Exchange, this research used a panel data technique.

Sample Size Statement

The sample size for this study is 320 organizations recorded on the Pakistan Stock Trade (PSX) from 2009 to 2020. This sample size is adequate to give the sufficient factual ability to identify a medium-sized impact (Cohen's d = 0.5) between outer administration components and firm execution, with an importance level of 0.05 and a force of 0.80.

Variables

The study utilizes the following variables:

- Dependent Variable: Return on Assets (ROA)
- Independent Variables:
- Voice and Accountability (VA)
- Government Effectiveness (GE)
- Regulatory Quality (RQ)
- Rule of Law (RL)
- Control of Corruption (CC)

Data Collection

The review's information was gathered from different sources, including the World Governance Indicators (WGI) data set and the annual reports of the 320 companies.

Data Analysis

The information was examined utilizing STATA software.

Key Findings

- *The study's key discoveries are as per the following:*
- *Voice and responsibility, administrative quality, and law and order are decidedly connected with firm execution in Pakistan. Government effectiveness and control of corruption are negatively associated with firm performance in Pakistan.*

New Contributions

- *This study makes the following new contributions to the literature:*
- *It is the first study to examine the impact of external governance mechanisms on firm performance in Pakistan.*
- *It provides empirical evidence that external governance mechanisms play a significant role in influencing firm performance in Pakistan.*
- *It fills a basic gap in the writing on corporate administration in developing business sectors.*
- *Notwithstanding the abovementioned, the concentrate additionally presents a few proposals for policymakers and business pioneers in Pakistan. These recommendations include:*
- *Strengthening voice and accountability mechanisms in corporate governance frameworks.*
- *Improving regulatory quality and the rule of law in Pakistan.*
- *Enhancing transparency and accountability in government institutions.*
- *Promoting ethical business practices and combating corruption.*
- *By implementing these recommendations, Pakistan can create a more conducive environment for business growth and development, ultimately leading to improved firm performance and economic prosperity.*
- *Companies listed on the Pakistan Stock Exchange that are not involved in financial activities make up the study's population. World Bank Governance Index (WGI) factors included anti-corruption initiatives, regulatory quality, government transparency and accountability, rule of law, and government effectiveness. The dependent variable, return on assets, was determined by analyzing yearly reports. The study stops short of going beyond the year 2020. In our random selection, we have selected 320 firms, including those with incomplete data. The research determined whether effects were fixed or random using panel least square methods and the Hausman test.*

Variables

Variables and their measurements reported in Table 1 are largely taken from earlier empirical studies so that a meaningful comparison can be made.

External Governance Mechanisms

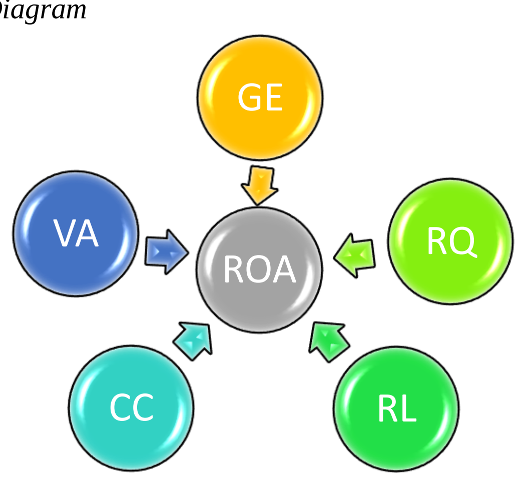
- *Voice and Accountability (VA)*
- *Government Effectiveness (GE)*
- *Regulatory Quality (RQ)*
- *Rule of Law (RL)*
- *Control of Corruption (CC)*

Firm Performance
Return on Assets (ROA)

Hypotheses

- H1: Voice and accountability (VA) have a positive impact on firm performance (ROA).
- H2: Government effectiveness (GE) affects firm performance (ROA).
- H3: Regulatory quality (RQ) has a positive impact on firm performance (ROA).
- H4: Rule of law (RL) has a positive impact on firm performance (ROA).
- H5: Control of corruption (CC) positively affect firm performance (ROA).

Conceptual Model Diagram



Model Interpretation

According to the framework's theoretical predictions, external governance measures significantly affect business output. Government efficiency and the power to control corruption are adversely associated with success, whereas the rule of law, high-quality regulations, and companies' ability to influence their operations favorably correlate. Based on these results, it seems that Pakistani companies may gain by establishing more efficient systems of external oversight.

Table 1
Measurements of variables

Variable	Measurement
Dependent variables	
Return on Assets	Operating Profit / Total assets
Explanatory variables	
External governance measures	
Voice and Accountability	This metric encompasses the following: the power of the people to choose their own representatives in government; the freedom of speech, association, and the press; and the degree to which citizens may use this power.
Government Effectiveness	How well policies are put into place, how competent and independent the civil service is, how good public services are, and how reliable the government is in its adherence to these goals.
Regulatory Quality	The extent to which the public has faith in the government's ability to enact rational policies that empower the private sector to expand.
Rule of Law	perspectives on the probability of criminal activity and violent incidents, the reliability of contract enforcement, property rights, law enforcement, and the judicial system, and the faith and commitment of individuals to community norms.
Control of Corruption	Feelings about corruption on a national and local level, as well as how powerful people and groups "capture" the state and use its authority for their own benefit.

Econometric Model

Taking into account all of the elements mentioned earlier, the following econometric model investigates the connection between performance and external governance systems.

$$Performance = \beta_0 + \beta_1 EXTGOV + \varepsilon_{it}$$

$$ROA_{it} = \beta_0 + \beta_1 VA_{it} + \beta_2 GE_{it} + \beta_3 RQ_{it} + \beta_4 CC_{it} + \beta_5 RL_{it} + \beta_6 FS_{it} + \varepsilon_{it}$$

Where

t= 1, 2 …12 (2009-2020), and i= 1, 2… 320 (company 1 to 320).

ROA= Return on Assets

VA = Voice and Accountability

GE = Government Effectiveness

RQ = Regulatory Quality

CC = Control of corruption

RL = Rule of law

FS = Firm Size

Discussion on Results

Table 2:
Descriptive Statistics

Variable	Obs	Mean	Std.Dev	Min	Max
ROA	3840	0.0678	0.1238	-0.97	0.73
VA	3840	-0.7933	0.0651	-0.88	-0.69
GE	3840	-0.7083	0.0855	-0.82	-0.55
RQ	3840	-0.6475	0.0459	-0.72	-0.58
CC	3840	-0.9217	0.1174	-1.09	-0.78
RL	3840	-0.7742	0.0771	-0.9	-0.67
FS	3840	15.1589	1.8176	8.25	20.57

The above table shows that the Return on Assets (ROA) varies from -0.97 to 0.73. Voice and Accountability varies from -0.88 to -0.69. Control of corruption shows a low value from -1.09 to -0.78. Rule of Law value varies from -0.9 to -0.67.

Table 3
Correlation Matrix

	ROA	VA	GE	RQ	CC	RL	FS
ROA	1						
VA	0.0053	1					
GE	-0.1164	0.1866	1				
RQ	0.0268	0.2624	-0.0691	1			
CC	-0.0940	0.4681	0.8029	-0.0906	1		
RL	-0.0877	0.0188	0.7570	0.1374	0.6881	1	
FS	0.2538	0.0080	0.1201	-0.0437	0.1181	0.1023	1

The above table of correlation matrix shows that there is no correlation among the variables. Correlation among the variables if increased to 0.90 or the value of VIF greater than 10 then it will cause the multico-linearity. In Table 3 and Table 4, there is no such issue exists among the variables.

Table 4
Multi-collinearity Diagnostic

Variable	VIF	1/VIF
CC	5.94	0.1684
RL	3.88	0.2578
GE	3.75	0.2663
VA	2.45	0.4083
RQ	1.61	0.6228
FS	1.02	0.9822
Mean VIF	3.11	

Regression Analysis

Through the use of regression analysis, one may ascertain if the connection between the dependent and independent variables is positive, negative, or statistically significant. To find out if the random effect or fixed effect model was better, we used the Hausman test. Since the

Hausman test's probability is not statistically significant ($p>0.10$), we substitute it with the random effect model.

Table 5
Results of Panel Least Squares Regression

Variables	Coefficients	Std. Error	z-statistics	Prob.
C	-0.2340	0.0443	-5.28	0.000
VA	0.1058	0.0340	3.11	0.002
GE	-0.1655	0.0321	-5.16	0.000
RQ	0.0136	0.0391	0.35	0.727
CC	-0.0734	0.0294	-2.49	0.013
RL	0.0347	0.0361	0.96	0.337
FS	0.0156	0.0022	7.11	0.000

Dependent Variable: ROA (Return on Assets)

Because there is a significant association between having a voice, taking responsibility, and ROI, civil liberty increases a company's performance. When people are held accountable for their acts by the government and when they are allowed to create organizations, discuss ideas, and use social media, great things happen. In agreement with one another are the results of Boadi and Amegbe (2017) and Rotagheh (2019). There is a statistically significant inverse relationship between government efficiency and corporate performance. Similarly, Frotagheh and Kardan (2019), Boadi and Amegbe (2017), and Modugu and Dempere (2020) all come to the same conclusion.

The regulatory quality (RQ) of a government is one indicator of its capacity to make sound policies. It is not possible to demonstrate a correlation between RQ and performance since the link is so small. In terms of CC control, a statistically significant negative correlation exists. The evidence supports the conclusions provided by Frotagheh and Kardan (2019). Researchers Frotagheh and Kardan found no statistically significant relationship between RL and its performance-enhancing benefits (2019).

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Fixed-effects (within) regression               Number of obs      =      3984
Group variable: firms                           Number of groups   =       332

R-sq:  within  = 0.0064                         Obs per group: min =        12
       between =      .                                        avg =      12.0
       overall = 0.0040                                        max =        12

                                                F(7,3645)          =      3.36
corr(u_i, Xb)  = -0.6165                        Prob > F           =    0.0014
```

va	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
roa1	-.0225295	.0116904	-1.93	0.054	-.0454499	.000391
roe1	-.0025879	.0011582	-2.23	0.026	-.0048586	-.0003172
at1	-.0037662	.0019499	-1.93	0.054	-.0075893	.0000569
roa2	.1787211	.0522048	3.42	0.001	.0763676	.2810745
roe2	.0018276	.0035828	0.51	0.610	-.0051969	.0088521
at2	0	(omitted)				
roa3	-.1561384	.0516261	-3.02	0.003	-.2573573	-.0549196
roe3	-.0006283	.0034034	-0.18	0.854	-.0073012	.0060446
at3	0	(omitted)				
_cons	-.7908949	.0022495	-351.59	0.000	-.7953053	-.7864846
sigma_u	.00408207					
sigma_e	.06770575					
rho	.00362189	(fraction of variance due to u_i)				


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F test that all u_i=0:     F(331, 3645) =     0.02             Prob > F = 1.0000
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Random-effects GLS regression                   Number of obs      =      3984
Group variable: firms                           Number of groups   =       332

R-sq:  within  = 0.0000                         Obs per group: min =        12
       between = 0.0000                                        avg =      12.0
       overall = 0.0044                                        max =        12

                                                Wald chi2(7)       =     17.73
corr(u_i, X)   = 0 (assumed)                    Prob > chi2        =    0.0133
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va	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
roa1	-.0219264	.0103684	-2.11	0.034	-.042248	-.0016048
roe1	-.0022856	.0010589	-2.16	0.031	-.0043611	-.0002101
at1	-.001518	.0011323	-1.34	0.180	-.0037371	.0007012
roa2	.098761	.0374476	2.64	0.008	.0253651	.1721569
roe2	.0016659	.0032934	0.51	0.613	-.004789	.0081207
at2	0	(omitted)				
roa3	-.0783627	.0369934	-2.12	0.034	-.1508684	-.005857
roe3	-.00061	.0031254	-0.20	0.845	-.0067357	.0055157
at3	0	(omitted)				
_cons	-.7919474	.0015338	-516.32	0.000	-.7949537	-.7889412
sigma_u	0					
sigma_e	.06770575					
rho	0	(fraction of variance due to u_i)				

	Coefficients (b) random	(B) fixed	(b-B) Difference	sqrt(diag(V_b-V_B)) S.E.
roa1	-.0219264	-.0219264	0	0
roe1	-.0022856	-.0022856	0	0
at1	-.001518	-.001518	0	0
roa2	.098761	.098761	0	0
roe2	.0016659	.0016659	0	0
roa3	-.0783627	-.0783627	0	0
roe3	-.00061	-.00061	0	0

b = consistent under Ho and Ha; obtained from xtreg
B = inconsistent under Ha, efficient under Ho; obtained from xtreg

Test: Ho: difference in coefficients not systematic

Hausman (1978) specification test

	Coef.
Chi-square test value	0
P-value	.

Some financial measures, such as ROA, ROE, and AT, depend on the governance variable (VA), according to the regression findings. Despite the fact that the random effects model only finds ROA1 and ROA3 to be significantly influencing VA, the fixed effects and random effects models demonstrate that ROA1, ROE1, and ROA3 are all significantly influencing VA. A p-value greater than 0.05 and a chi-square score of 0 indicate that the random effects model outperforms the fixed effects model, according to the Hausman test. Money matters greatly impact governments, even if the two models couldn't be more different.

Recommendations

According to the extensive research conducted on examining the performance of the companies listed in PSE, there are several recommendations for the business leaders and policymakers. These recommendations are,

- Focus on strengthening the voice and accountability mechanisms with corporate governance.

- Improve regulatory quality and increase the rule of law to implement proper business policies.
- Government needs to be effective and have measures to control corruption.
- Promote ethical business practices and ensure transparency in government institutions.

These recommendations help in stabilizing the economy and increase the overall economic structure of Pakistan, all 320 listed companies need to strengthen their governance framework and implement strong policies and rules. It is highly recommended to promote ethical practices and provide training to employees to create a positive workplace that ensures business growth and development. The implementation of these practices will subsequently improve the overall performance of the country and lead to economic prosperity.

Limitations

The study explores different arenas of the corporate governance and provide useful insights that are very important in understanding the corporate governance of different companies listen Pakistan Stock Exchange and their performance and movement over the period of 2009 to 2020. However, there are some limitations attached to the research. There is a lot of bias in the data collection as most of the results don't reflect the performance of the company in a proper way. There is an existence of generalizability of findings to diverse contexts affects the overall paradigm of the research, this needs to cater in more cautious way.

The overall time scope of the research doesn't clearly capture the evolving effects of corporate governance and the research totally relies on the annual reports and external information, this introduces the chance of error in the research. The research addresses complex issues and there are a lot of constraints, and each limitation needs to be understood properly and focused on dealing with complex relationship between firm performance and external governance.

Future Directions

The future research in this domain is very fruitful as it explores the dynamic change in corporate governance and examines the shift in the performance of the organizations. It is necessary to conduct a comprehensive analysis of companies to examine the impact of corporate governance on the performance of companies. The research also investigates the sector specific nuance and uncovers all the challenges associated with corporate governance. There is a lot of scope in the future as there are many stakeholders that are interested in knowing the internal and external corporate governance of different companies listed in Pakistan Stock Exchange.

Conclusion

The major objective of this study was to analyze the relationship between the financial performance of Pakistani enterprises and different forms of external governance. In all, 320 businesses with a lifespan from 2009 to 2020 were surveyed. Elements that are examined in this research include rule of law (RL), regulatory quality (RQ), control of corruption (CC), and government effectiveness (GE). Firm success was associated with voice and responsibility in a positive but insignificant way, while regulatory quality and the rule of law were similarly associated with corporate performance. Government efficiency, anti-corruption efforts, and output are statistically negatively correlated. What this means is that external governance variables do, in the majority of instances, significantly affect company outcomes. If lawmakers and regulators really want firms to perform better, they should make reasonable changes to the rules. This study is very beneficial for financial firms, analysts, researchers, and anyone else involved in the field.

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