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CORPORATE GOVERNANCE AND FIRM PERFORMANCE IN EMERGING MARKETS IN PAKISTAN

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ABSTRACT

The purpose of this study is to investigate the impact of Corporate Governance on Firm Performance in emerging markets of Pakistan. Panel data was collected from the period of 2014 to 2019. This study has two models. In the first model, Tobin's Q was used as the proxy of firm performance. In the second model, return on assets (ROA) was used as the proxy of firm performance. The Panel Least Square Regression was applied to analyze the data. The results showed corporate governance has a positive impact on firm performance. The results indicated that increases in the Corporate Governance Index increase the financial performance of the firm and vice versa. The results also found that there is an inverse connection between Family board membership, the board size, and return on assets. The results suggest that companies should maximize the foreign ownership and board size to increase systemic benefits. It helps to compensate for weaknesses.

INTRODUCTION

Corporate governance practices play a vital role in enhancing firm performance. Over the last few decades, corporate governance has been debated worldwide by the most the scholars (Aksar, Hassan, Kayani, Khan, & Ahmed, 2022). Following questions have been raised regarding corporate governance like how efficiently firms are governed and how external and internal governance practices diversify. Corporate governance practices and firm performance

remains a big issue in developing countries such as Pakistan. Awareness of corporate governance has quite a long history. Good corporate governance practices increase the profitability, efficiency, effectiveness, and competitive advantage of the firm. While poor corporate governance practices result from the collapse of a corporate. Although, the debates related to corporate governance highlighted the need to improve corporate governance structure and process. It is useful to improve financial performance (Kyere & Ausloos, 2021). The purpose of corporate governance practices is to protect stakeholders and investors from administration and directors' wrong decisions in a corporate. It does not have any guarantee that the policymakers in a company such as the administration and directors are making a good decision. Corporate governance is the policy standard and practices by which firms run. Moreover, it makes good bonding between stakeholders and managers (Zaman, Jain, Samara, & Jamali, 2022).

Some studies argued that the effect of the partition of ownership and control raises a conflict among the interests of managers and shareholders. Accordingly, many studies have made essential contributions by investigating the role of corporate governance in decreasing such conflicts of interest between two sides. The worth of corporate governance can be estimated on the source of the principles of disclosure and transparency, characteristics of the board of directors, relationship with shareholders and stakeholders, policies and compliance, and ownership and control structure (Aksar et al., 2022). Previous research stated that corporate governance is the way to govern the corporate. There are two types of corporate governance practices, internal and external. The internal corporate governance practices are weak in emerging markets like Pakistan, China, India, etc., due to the fluid and weak arrangement of the institutions. It diminishes firm performance and needs the advancement in corporate mechanisms (Ciftci, Tatoglu, Wood, Demirbag, & Zaim, 2019). The main reason is the problem of principal-agent among the manager interest and shareholders (Fama & Jensen, 1983). Previous studies have discussed the agency's problems and limitations. The stakeholders' demand for sustainable corporate development. Good corporate governance practices can decrease agency problems. In corporate, managers are responsible to gives accurate financial and non-financial information about the company (García-Sánchez, Hussain, Khan, & Martínez-Ferrero, 2022; Nasrallah & Khoury, 2022; Song & Yang, 2022).

In 1999, the economic corporation and development (OECD) organization considered corporate governance as a mechanism through which businesses are directed and controlled. It helps to manage the conflicts between managers and shareholders (Dimitropoulos & Chatzigianni, 2022). There are two types of corporate mechanisms: relationship-based (insider) and market-based (outsider). The relationship-based mechanism is the stakeholders oriented. It is common in developing countries of Asia and Europe. The purpose of this mechanism is to maximize the profit of shareholders. Market-based is a shareholder value mechanism. It is uncommon and only seen in the United States and the United Kingdom (Dimitropoulos & Chatzigianni, 2022). The objective of this system is to shield the shareholder minorities and to maximize the value of shareholders (Ciftci et al., 2019).

In Pakistan, the relationship-based mechanism has been applied to corporate governance practices. In March 2002, the securities and exchange commission of Pakistan issued the code of corporate governance to set up a structure for good governance. It is listed on Pakistan's stock exchanges. In exercise of its power under section 34(4) of the securities and exchange ordinance 1969, the SEC issued directions to the Karachi, Lahore, and Islamabad stock exchanges. It has merged as a Pakistan stock exchange (Nizam, Liaqat and Saghir, 2022). It is used to corporate the provision of the code in their respective listing regulations (Muhammad, 2022). The code is an accumulation of "best practices" planned to give the structure. The companies listed on Pakistan stock exchanges are facilitated and controlled, to protect and insurance the stakeholders and advance the business sector certainty. It is useful to enhance the execution of companies. Since SECP took the responsibility for corporate law so it has seen a wide change in global business directly or indirectly. In Pakistan, corporate sectors face challenges, which are lifted by the global business (Muhammad, 2022). In this study, the impact of corporate governance on firm performance by using two proxies as return on assets and Tobin's Q in emerging markets of Pakistan (Ciftci et al., 2019). The paper comprises a literature review, methodology, data analysis, and conclusion.

LITERATURE REVIEW

Theoretical Background

Corporate governance practices have become essential for both local and international companies. It has been observed as an essential pillar to enhancing firm performance. Non-financial and financial firms implement the policies of corporate governance. Zhu, Pan, Qiu, and Xiao (2022) stated that corporate governance is a set of rules and traditions in all organizations, that maintain the relationship between stakeholders and companies management, especially in the context of decision-making". Several theories explain the relationship between corporate governance and firm performance by following theories including institutional theory, resource dependence theory, agency theory, stakeholder theory, and stewardship theory.

Institutional Theory

It was first introduced by (Dimaggio & Powell, 1983). It stated that a firm operating within a relation of schemes, values, and norms assumptions related to the acceptable and appropriate behavior of the economy. It considers different strands from sociological approaches (Micro-level) to socio-economic approaches (macro-level). It obtains to relate the behavior of a firm to social behavior. Kyere and Ausloos (2021) argued that a company is dominated by resource-based and agency based. It might be an institution. It determines where and how family ownership predominated. How it influences the organization's performance. The study suggested that opposing evidence of family business on the firm performance could be a reason for failure. Based on previous research evidence related to a socio-economic feature, neither the stakeholder nor shareholder has the power to explain the accurate dominated economy of family firms (Basterretxea, Cornforth, & Heras-Saizarbitoria, 2022).

Resource Dependence Theory

Pfeffer and Salancik (2003) introduced resource dependence theory. This theory is considered as the board of directors plays an important role to enhance firm performance. This theory focuses on the board of directors' role in providing the resources access that is needed by the organization (Basheer, 2014). The resource provision increases the firm's survival, performance, and functions. The theory explains the effect of an organization's external resources on the firm behavior (Esa, Mohamad, Wan, & Ilias, 2022).

Agency Theory

This theory was first introduced by (Jensen & Meckling, 1979). It explained the connection between agents (Managers) and principals (Shareholders). The delegation to run a business is given to the director or managers who are the agent of the shareholders by principals (Zaman et al., 2022) Sometimes the principal and agent problems occur when the interests of the principal and agent are different and then conflict arises. In García-Sánchez et al. (2022) said that principal and agent problems are not the same in all organizations slightly. They are dissimilar in different organizations, distinctive businesses, and sometimes in different societies. Some agents may not perfectly act in the principal's best interests. Nevertheless, if the business owners set up an arrangement with employees in which they monitored and give incentives (Basheer et al., 2021). The role of the directors is very important in decision-making and control. However, a few analysts have been suspicious about the board's capability to moderate the agency problem and improve firm value (Nasrallah & Khoury, 2022). In addition, it is measured as one of the prime internal corporate governance mechanisms (Greuning & Brajovic-Bratanovic, 2022).

Stakeholder Theory

It is business ethics and organizational management theory. Its report on various constituencies affected by entities of business such as creditors, suppliers, employees, etc. It was introduced by (Sulkowski, Edwards, & Freeman, 2018). It stated that the managers of a corporation such as directors or officers should give attention to the stakeholders' interest in its process of governance. According to Song and Yang (2022), good corporate governance requires an excellent governance system. It helps in building shareholders' assurance. It treats all stakeholders similarly.

Stewardship Theory

It stated that company managers and executives (stewards) maximize profit, protect the wealth of shareholders, and enhance the firm performance. It was first introduced by (Davis, Schoorman, & Donaldson, 2018). It explained the association between management and ownership of the firm. According to Shaikh and Randhawa (2022), the executive and board of directors of the firms involve shared decision-making, mentoring, and training. The board of directors plays an important role in authorizing executives, and in return, it enhances the performance of the firm.

EMPIRICAL REVIEWS

Firm Performance

Brainard and Tobin (1968) first introduced Tobin's Q. It is measured as the percentage of the firm's market value divided by the firm's total assets. It is used as the proxy of firm performance. It identifies the uses and management of assets appropriately. It generates more revenue through business (Basheer et al., 2018). It identifies whether the firm is healthy or weak (Nguyen et al., 2014). Return on assets is measured as the percentage of a firm's net income divided by the firm's total assets (Nasrallah & Khoury, 2022).

Ownership Concentration and Firm Performance

It is defined as at least 5% of shareholders owning the ordinary shares of the firm. It is an internal practice of governance through owners. It can influence and control the firm's management. It shields the owner's interest. Putra, Andreas, and Savitri (2022) stated an extremely concentrated ownership structure is likely to create more pressure on management. It maximizes the interest of owners. Iwasaki, Ma, and Mizobata (2022) argued that it is related to players and powerful families (Basheer, et al.,2019). It creates an opportunity to make strong networks. It increases the performance of the firm. It negatively affects Tobin's Q. It shows the optimal arrangement of corporate governance because the institution is weak in Turkey. Ciftci et al. (2019) found a positive link between ownership concentration and firm performance. It suggested that high ownership concentration enhances the firm performance.

H1: There is a significant relationship between ownership concentration and firm performance

Cross-Ownership and Firm Performance

It is measured as a percentage of shares of a company divided by total shares (Aksar et al., 2022). It is defined as the different companies' ownership in a single industry or ownership of two or more similar businesses. Families enable by cross-ownership to reallocate returns and costs. The disadvantage is that disempowered shareholders of non-families (Fu, Liu, Qin, & Zhao, 2022). If the arrangement of institutions is weak, the cross owner can only earn a few benefits. It is a systematic failure of firm performance. It restricts non-family shareholders to use their rights (Greuning & Brajovic-Bratanovic, 2022). Ciftci et al. (2019) found that the influence of cross-ownership is negative on firm performance. The result suggested as political barriers and low investor rights influence negatively on firm performance.

H2: There is a significant relationship between cross-ownership and firm performance

Foreign Ownership and Firm Performance

It is measured as the percentage of shares of foreign investors divided by total shares. It is also referred to as investment for the long term in a foreign country. Foreign companies invest more and have consistency (Webster, Okafor, & Barrow, 2022). That is why the productivity and performance of foreign-owned firms are higher. Ciftci et al. (2019) found that the influence of foreign ownership on firm performance is positive. Esa et al. (2022) found foreign ownership has a positive effect on economic performance. The reason behind it is foreign firms do more strategic restructuring by more sales and profit. Local organization decreases labor cost and sales without enhancing profit. It is related to superior firm performance. Therefore, it is giving support to the agency theory.

H3: There is a significant relationship between foreign ownership and firm performance

Board Size and Firm Performance

It is calculated as the total number of directors in the firm. The agency theory explained that a board of directors means giving more power to a person. It can reduce the independence and effectiveness of the board (Zaman et al., 2022). According to the OECD, the best B-SIZE has between five to nine core members. Mahmoudian and Jermias (2022) found that winning companies had larger boards than those firms that did not survive. From previous studies, huge boards are connected with high performance. The relationship and structure of boards are one of the key corporate reputation factors (Nasrallah & Khoury, 2022). Orozco, Vargas, and Galindo-Dorado (2018) investigated the relationship between board size and financial corporate performance in Business Monitor of Corporate Reputation – MERCO in Colombia. The study found that the size of boards has a direct impact on financial performance. The study suggested that estimated outcomes must be carefully analyzed. Palaniappan (2017) investigated the board characteristics' impact on manufacturing firms' financial performance in India. The results found an inverse relationship between the extent of a firm's performance and board characteristics indicators (Greuning & Brajovic-Bratanovic, 2022; Shaikh & Randhawa, 2022). According to Ciftci et al. (2019), there is a positive relationship between board size and firm performance.

H4: There is a significant relationship between board size and firm performance

Family Board Membership and Firm Performance

It is calculated as the total family members to the total board of directors. The previous studies stated that concentrated decision-making in loyalties, personal ties, and family members increases commercial demand. It has a significant impact on firm performance . It found as efficient and important in companies (Amin, Ali, Rehman, Naseem, & Ahmad, 2022). Previous studies found a positive relationship between family board membership and firm performance

(Basterretxea et al., 2022; García-Sánchez et al., 2022; Nasrallah & Khoury, 2022).

H5: There is a significant relationship between family board membership and firm performance

Board Specific Controls and Firm Performance

Women's board membership is measured as the total number of female directors in the total board of directors (Isidro and Sobral, 2015). Discrimination related to gender influences negatively firm performance. According to Campbell and Minguez-Vera (2008) composition of gender affects the quality of a firm. Executive Board membership is the rate of the Executive board members. It is measured as the total executive directors to the total board of directors. They contribute to facilitating and expertise. Kaymak and Bektas (2008) found that there is a positive impact between executive board membership and firm performance. Independent board membership is the non-executive and independent board members. It is measured as the total independent directors to the total board of directors. Ciftci et al. (2019) found that executive board members negatively affect Tobin's Q.

CEO Duality is defined as one person having two designations such as chairperson of a board and CEO. It is measured as the CEO and the board's Chairman being the same. If the chairperson is also the CEO of the company, then the value will be 1 otherwise 0 (Nguyen et al, 2014). Ciftci et al. (2019) found that executive board membership, CEO duality, and women board membership are not associated with firm performance. Egbunike and Odum (2018) focused on four board structure characteristics: CEO duality, composition, the board size, and proportion of non-executive directors. The study found that CEO duality has a positive impact on firm performance.

H6: There is a significant relationship between board-specific controls and firm performance

Infrastructure Specific Controls and Firm Performance

Publicly held ownership is measured as the ratio of traded shares publicly divided by total shares. Its share proportion should be controlled because it dilutes the company's stake families. It changes decline the firm performance. The study found that there is a negative association between publicly held ownership and firm performance Ciftci et al. (2019). Corporate governance is the place of mechanisms. It supports benefits and objectives between the company managers and finance providers (bin Hidthiir et al.,2019). The corporate governance index is determined whether a company has quoted in (CGI) or not. If the company is quoted in the corporate governance index, it will be equal to 1, otherwise 0 (Nguyen et al, 2014). Ali A. and Shehata (2007) investigated the influence of governance on firm performance. The study suggested that the proper implementation of corporate governance has an effective role in financial performance. It increases the confidence of investors. It brings a local investment. It attracts foreign investors. Ciftci et al. (2019)

found that there is a positive association between corporate governance and firm performance.

H7: There is a significant relationship between infrastructure-specific controls and firm performance

Firm-Specific Controls and Firm Performance

Leverage is calculated as the total of long-term and short-term debt to the total assets (Iqbal and Usman, 2018). Ciftci et al. (2019) found that leverage influences firm performance either positively or negatively. Iqbal and Usman (2018) found leverage has a positive impact on firm performance. It increases the debt level and decreases the potential costs of the agency. The results indicated that minimum cash available for managers after debt servicing. On the other hand, Campbell and Minguez-Vera (2008) found that leverage negatively influences firm performance. It increases in debt level and the bankruptcy risk. The firm age is calculated as the company age's natural logarithm from the incorporation date (Nguyen et al., 2014). According to Ciftci et al. (2019), firm age has a significant impact on firm performance, which is, remains ambiguous. Sarkar and Sarkar (2000) found that the younger firms' performance is higher than older firms. Younger firms have new assets in contrast to older firms. In addition, younger firms are more competitive in a modern environment. However, older firms contain more knowledge about the market, and they have made up the best market share level, which creates difficulty to assess the comparison between younger and older firms.

The firm size is measured by the firm total asset. The natural logarithm of total assets is used as a proxy of firm size . The industry is identified as to whether a company is manufacturing or servicing. If the company is manufacturing, then it will be equal to 1, otherwise 0 (Gregory, 2022). It has a significant influence on the performance of the firm. Su, Xu, and Phan, (2008) found that large boards have been found in large firms which affect positively on firm performance. Khan and Rehman (2022) suggested that large firms have more profit, more funds, and cheaper resources. The industry has a significant impact on the performance of Firms. Manufacturing companies invest in equipment and machinery. On the other hand, service companies use the money for marketing and advertisement expenditure. Group affiliation is identified as to whether a company shows consolidated financial or not. If consolidated financial, then the value will be 1, otherwise 0. It is a group of businesses. It consisting of each company with various links they want to achieve the goal (Greuning and Brajovic-Bratanovic, 2022). Singh and Gaur (2009) found that group-affiliated firms have low performance than unaffiliated firms.

H8: There is a significant relationship between firm-specific controls and firm performance

METHODOLOGY

The purpose of this study is to determine the impact of corporate governance practices on firm performance by using two different proxies of firm performance such as Tobin’s Q and Return on Assets (ROA). An explanatory

study is conducted to support the concept which has been discussed poorly in previous research. It gives strength to the previous studies' concept. The research approach is quantitative and the research is based on numeric data. The quantitative approach has been used. It gives the most accurate, effective, and valid results (Liaqat et al., 2021). This study applied a correlational research design. This study took secondary published data from financial reports of non-Financial firms listed on the Pakistan stock exchange (PSX). The data was collected from 50 Pakistan stock exchange-listed firms in the manufacturing and servicing industry. The six years of data were collected from 2014 to 2019. The data was collected from the state bank of Pakistan website. The total number of observations were.300.

To test the hypotheses, the following tests were performed. The tests included descriptive analysis, Panel Unit Root, Co integration, Hausman test, and Panel Least Square Regression (Nizam and Liaqat, 2022). Panel Unit Root was applied, to check whether the variables are stationary or non-stationary. The Co-integration test was applied to check the long-run relationship between variables. The Hausman test was applied to check the fixed or random effect between variables. In the last, Panel Least Square Regression was applied to determine the relationship between corporate governance and financial performance. Panel least square regression (PLS) was used to analyze two models; first, to examine the influence of corporate governance on firm performance as Tobin's Q, and second, to examine the influence of corporate governance on the financial performance as a return on assets (ROA).

RESEARCH MODEL

This study has two models. In the first model, Tobin's Q was used as the proxy of firm performance. In the second model, return on assets (ROA) was used as the proxy of firm performance.

$$\begin{aligned} TOBIN'SQ_{it} = {} & \alpha_{it} + \beta_{1it}OC_{1it} + \beta_{2it}CO_{2it} + \beta_{3it}FO_{3it} + \beta_{4it}BS_{4it} \\ & + \beta_{5it}FBM_{5it} + \beta_{6it}WBM_{6it} + \beta_{7it}EBM_{7it} + \beta_{8it}IBM_{8it} \\ & + \beta_{9it}PHO_{9it} + \beta_{10it}CGI_{10it} + \beta_{11it}LEV_{11it} + \beta_{12it}FS_{12it} \\ & + \beta_{13it}FA_{13it} + \beta_{14it}GA_{14it} \\ & + \varepsilon \end{aligned} \quad \text{(i)}$$

$$\begin{aligned} ROA_{it} = {} & \alpha_{it} + \beta_{1it}OC_{1it} + \beta_{2it}CO_{2it} + \beta_{3it}FO_{3it} + \beta_{4it}BS_{4it} + \beta_{5it}FBM_{5it} \\ & + \beta_{6it}WBM_{6it} + \beta_{7it}EBM_{7it} + \beta_{8it}IBM_{8it} + \beta_{9it}PHO_{9it} \\ & + \beta_{10it}CGI_{10it} + \beta_{11it}LEV_{11it} + \beta_{12it}FS_{12it} + \beta_{13it}FA_{13it} \\ & + \beta_{14it}GA_{14it} \\ & + \varepsilon \end{aligned} \quad \text{(ii)}$$

Model 1 and 2 were presented by the above equations. Where, (Tobin's Q) and return on assets (ROA) are Firm Performance. α_{it} is constant. (OC) is Ownership concentration, (CO) is Cross ownership, (FO) is foreign ownership, (BS) is Board size (BS), and (FBM) is Family board membership. (WBM) is Women's board membership, (EBM) is Executive board membership, (IBM) is Independent board membership, (PHO) is publicly held ownership, (CGI) is corporate governance index, (LEV) is leverage, (FS) is firm size, (FA) is firm age, and (GA) is group affiliation, ε denotes error, i is the firms and t is the times.

DATA ANALYSIS

The descriptive statistics of variables are summarized in table 1. The mean of firm performance (TOBIN'SQ) is 31.62. The mean of firm performance (ROA) is 4.35. The mean of (CG) is 0.91. The standard deviation of firm performance (ROA) is 11.40%. The standard deviation of firm performance (TOBIN'SQ) is 175.10%. The standard deviation of the corporate governance index (CG) is 0.2832%. In contrast, the (TOBIN'SQ) standard deviation is high then (ROA) and (CG) which indicates that (TOBIN'SQ) is highly volatile during the sample period. However, return on sales as the profitability of the firm is higher volatile than CGI during the sample period.

Table 1: Descriptive Statistics

Variables	Mean	Median	Max	Min	St. Dev.
TOBIN'S	31.620	5.4466	1756.4	0.2388	175.106
ROA	4.3597	3.3900	41.320	-76.770	11.4025
FO	0.4112	0.0880	9.0000	0.0000	0.9067
CO	0.4616	0.0100	10.0000	0.0011	1.9279
CGI	0.9126	1.0000	1.0000	0.0000	0.2832
BS	7.8142	8.0000	13.0000	5.0000	1.2441
AGE	3.6818	3.5553	4.5747	2.8904	0.3836
EBM	0.2375	0.1667	1.6000	0.0000	0.2489
FBM	0.5428	0.5556	1.0000	0.1250	0.1828
FL	1.8030	1.3767	32.8451	-8.0126	3.2283
GA	0.5082	1.0000	1.0000	0.0000	0.5013
IBM	0.2355	0.2500	0.5000	0.0000	0.1148
OC	0.6175	1.0000	1.0000	0.0000	0.4873
PHO	221.25	5.3206	11166.7	0.0000	1212.6
SIZE	14.805	14.7292	17.5663	10.020	1.6234
WBM	0.0785	0.0000	0.3750	0.0000	0.0988

Note: ROA = Return on Assets; OC = Ownership Concentration; CO = Cross-Ownership; FO = Foreign Ownership; BS = Board Size; FBM = Family Board Membership; WBM = Women's Board Membership; EBM = Executive Board Membership; IBM = Independent Board Membership; PHO = Publicly Held Ownership; CGI = Corporate Governance Index; LEV = leverage; FS = firm size; FA = firm age; GA = Group Affiliation

Table 2: Panel Unit Root

Method	TOBIN'S	ROA		FO			CO		CGI	
	Level	First	Level	First	Level	First	Level	First	Level	First
LLC	0.000	0.000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.5619	0.0000
IPS	0.000	0.000	0.0000	0.0000	0.0000	0.0000	0.0850	0.0000	0.8321	0.0000
ADF	0.000	0.000	0.0000	0.0000	0.0002	0.0109	0.0960	0.0000	0.9666	0.0000
PP	0.019	0.000	0.0000	0.0000	0.0046	0.0003	0.0998	0.0000	0.9987	0.0000
Method	BS	AGE		EBM			FBM		FL	
	Level	First	Level	First	Level	First	Level	First	level	First

LLC	0.69	0.000	0.0000	0.000	0.407	0.000	0.000	0.0000	0.0000	0.000
IPS	0.99	0.004	0.0000	0.000	0.999	0.000	0.939	0.0035	0.035	0.000
ADF	0.99	0.004	0.0000	0.000	0.999	0.001	0.968	0.0042	0.012	0.000
PP	0.95	0.000	0.0000	0.000	0.999	0.000	0.958	0.0004	0.000	0.000
Method	**GA**	**IBM**		**OC**			**PHO**		**SIZE**	
	Level	**First**	**Level**	**First**	**Level**	**First**	**Level**	**First**	**level**	**First**
LLC	0.01	0.000	0.030	0.000	0.070	0.000	0.000	0.0000	0.000	0.000
IPS	0.78	0.004	0.991	0.000	0.937	0.000	0.580	0.0035	0.083	0.000
ADF	0.91	0.004	0.982	0.000	0.984	0.001	0.645	0.0042	0.015	0.000
PP	0.94	0.000	0.983	0.000	0.981	0.000	0.560	0.0004	0.000	0.000
Method	**WBM**									
	Level	**First**								
LLC	0.01	0.000								
IPS	0.94	0.004								
ADF	0.99	0.004								
PP	0.95	0.000								

Note: ROA = Return on Assets; OC = Ownership Concentration; CO = Cross Ownership; FO = Foreign Ownership; BS = Board Size; FBM = Family Board Membership; WBM = Women's Board Membership; EBM = Executive Board Membership; IBM = Independent Board Membership; PHO = Publicly Held Ownership; CGI = Corporate Governance Index; LEV = leverage; FS = firm size; FA = firm age; GA = Group Affiliation

The panel unit root results are summarized in Table 2. The probability value of variables TOBIN'SQ, ROA, FO, AGE, and FL is below 0.05% at the level, which indicated that those variables' data are stationary. However, the probability of variables including CO, FBM, GA, IND, PHO, SIZE, and WBM is below 5% at the level in the LCC test indicates data is stationary but above 5% in IPS, ADF, and PP test, indicating that data is non-stationary at the level. Moreover, the probability of variables including CGI, BS, EBM, and OC is above 5% in LCC, IPS, ADF, and PP tests, indicating the variables are non-stationary at the level.

Pedroni's (1999) methodology was used, to check the stability of the long-term connection between variables. The results are shown in Table 3 that the probability value of all estimations is less than 5%. It suggests that the alternative hypothesis is accepted. It shows there is co-integration between variables. The results indicate that there is a long-term connection among variables.

Table 3: Co-integration Test

Pedroni (Eagle Granger-based) Panel Co-integration		
Estimates	Statistic	Prob.
Panel v-Statistic	-3.5092	0.0034
Panel rho-Statistic	-2.8469	0.0481
Panel PP-Statistic	-5.8738	0.0000

Panel ADF-Statistic	-5.2904	0.0000
Alternative hypothesis: individual AR coefficient		
Group rho-Statistic	3.3916	0.0097
Group PP-Statistic	-4.8294	0.0000
Group ADF-Statistic	-7.6483	0.0000

Panel Least Square Regression (Model 1)

In mode1, the study estimated the influence of corporate governance on TOBIN'SQ. This study applied a regression of panel estimation with a fixed/random effect. The First Hausman test was applied to check whether the random or fixed effect model was appropriate. The results are shown in table 4 value of probability is 0.00. It supported the null hypothesis. The model of fixed affect was appropriate.

Table 4: Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	34.83525	14	0.0016

Table 5: Panel Least Square Regression with Fixed Effect

Dependent: Firm Performance TOBIN'SQ				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
PHO	0.000	0.044	3.006	0.0053
OC	7.544	4.435	2.701	0.0062
IBM	4.884	46.461	0.902	0.0723
GA	-0.272	3.790	-0.072	0.0931
FO	2.272	4.481	3.507	0.0047
FL	-0.070	2.277	-3.031	0.0056
FBM	-3.584	4.338	-3.826	0.0034
EBM	0.812	1.412	2.575	0.0085
CO	1.439	0.863	3.669	0.0024
CGI	2.970	17.349	2.727	0.0013
BS	7.560	12.480	2.606	0.0079
AGE	3.313	28.655	2.116	0.0085
SIZE	-4.933	15.401	-2.723	0.0093
WBM	1.510	2.263	2.667	0.0081
C	-9.274	104.778	-3.089	0.0299
R-squared		0.955268		
Adjusted R-squared		0.921979		
F-statistic		28.69608		
Prob(F-statistic)		0.00000		
Durbin-Watson stat		2.03368		

Note: ROA = Return on Assets; OC = Ownership Concentration; CO = Cross Ownership; FO = Foreign Ownership; BS = Board Size; FBM = Family Board Membership; WBM = Women's Board Membership; EBM = Executive Board

Membership; IBM = Independent Board Membership; PHO = Publicly Held Ownership; CGI = Corporate Governance Index; LEV = leverage; FS = firm size; FA = firm age; GA = Group Affiliation

In a panel regression model, estimation with a fixed effect was performed for model (1). The results showed that the relationship between corporate governance and (TOBIN'SQ) is positive. The independent variables include OC, FO, BS, FBM, and CO have a positive association with firm performance (TOBIN'SQ). Board-specific control variables including WBM and EBM have a positive association with firm performance (TOBIN'SQ). There is no relationship found between IBM and TOBIN'SQ. Firm-specific control variables include AGE has a positive association with firm performance (TOBIN'SQ). FL and SIZE have a negative association with firm performance (TOBIN'SQ). (GA) has an insignificant effect on TOBIN'SQ. CG infrastructure-specific control variables including PHO and CGI have a positive impact on TOBIN'SQ. The adjusted R-squared is 92%. It indicates that the change in financial performance is 92% due to its independent variables. The Durbin Watson value is 2.0, which suggests that there is no issue of autocorrelation.

Panel Least Square Regression (Model 2)

The study determines the influence of governance of corporate on the performance of corporate. The result shown in table 6 probability value is 0.8393, which supports the alternative hypothesis as the model of random effect is appropriate.

Table 6: Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	8.86954	14	0.8393

Note: ROA = Return on Assets; OC = Ownership Concentration; CO = Cross-Ownership; FO = Foreign Ownership; BS = Board Size; FBM = Family Board Membership; WBM = Women's Board Membership; EBM = Executive Board Membership; IBM = Independent Board Membership; PHO = Publicly Held Ownership; CGI = Corporate Governance Index; LEV = leverage; FS = firm size; FA = firm age; GA = Group Affiliation

In a panel regression model, estimation with random effect was performed for model 2. The results showed that there is a significant relationship between corporate governance and (ROA). The independent variables include FO, and BS have a negative influence on ROA, whereas, OC, FBM, and CO have a positive association with firm performance (ROA).

Table 7: Panel Least Square Regression with Random Effect

Dependent: Firm Performance ROA				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
WBM	-1.029	1.357	-2.758	0.0502
SIZE	-17.564	9.238	-2.901	0.0064
PHO	0.014	0.027	3.535	0.0003
OC	0.496	2.660	3.186	0.0001
IBM	-10.958	27.868	-3.393	0.0014
GA	4.449	2.274	1.957	0.0569
FO	-0.716	2.688	-3.266	0.0013
FL	-3.006	1.366	-2.201	0.0332
FBM	1.585	2.602	2.609	0.0058
EBM	0.291	0.847	3.344	0.0025
CO	0.535	0.517	2.035	0.0066
CGI	21.394	10.406	2.056	0.0459
BS	-5.084	7.486	-2.679	0.0069
AGE	-4.424	17.188	-2.257	0.0081
C	26.441	62.848	1.421	0.0761
R-squared		0.877925		
Adjusted R-squared		0.787078		
F-statistic		9.663819		
Prob(F-statistic)		0.00000		
Durbin-Watson stat		2.016587		

: ROA = Return on Assets; OC = Ownership Concentration; CO = Cross Ownership; FO = Foreign Ownership; BS = Board Size; FBM = Family Board Membership; WBM = Women's Board Membership; EBM = Executive Board Membership; IBM = Independent Board Membership; PHO = Publicly Held Ownership; CGI = Corporate Governance Index; LEV = leverage; FS = firm size; FA = firm age; GA = Group Affiliation

Board-specific control variables including WBM and IBM have a negative association with firm performance ROA. While a positive relationship was found between EBM and ROA. Firm-specific control variables including AGE, FL, and SIZE have a negative association with firm performance (ROA). (GA) has an insignificant effect on ROA. CG infrastructure-specific control variables including PHO and CGI have a positive impact on ROA. The adjusted R-squared is 78%. It indicates that the change in financial performance is 78% due to its independent variables. The Durbin Watson value is 2.0. It suggests that there is no issue of autocorrelation.

CONCLUSION AND DISCUSSION

This research aims to examine the impact of corporate governance on a Firm's Performance (namely, TOBIN'SQ and ROA). The first model presented the

relationship between (CG) and (TOBIN'SQ). The second model presented the relationship between (CG) and (ROA). The secondary data was collected from 31 PSX-listed firms in the manufacturing industry. The six years of data were collected from 2014 to 2019. The data was collected from the state bank of Pakistan website. The total number of observations was 300. The data on corporate governance is collected from the annual financial reports of the companies.

To test the hypotheses of this research, the following tests were performed, Descriptive analysis, Panel Unit Root, Co integration, Hausman test, and Panel Least Square. The results show that there is a significant relationship between (CGI) and firm performance. In model 1, the results show that the relationship between corporate governance and (TOBIN'SQ) is positive. OC, FO, BS, FBM, and CO have a positive association with firm performance (TOBIN'SQ). In model 2, the panel regression model, estimation with random effect was performed. The results show that there is a significant relationship between corporate governance and (ROA). FO and BS have a negative influence on ROA, whereas, FBM, OC, and CO have a positive association with firm performance (ROA).

The above results indicated that OC is a key for CG. It initiates and achieves success. The results found a positive relationship between OC and TOBIN'SQ and ROA. This result reveals the better performance of the firms. OC optimizes the performance of the firm (Greuning & Brajovic-Bratanovic, 2022; Nasrallah & Khoury, 2022). The CO positively affects firm performance in both TOBIN'SQ and ROA. It indicates that lower risk at firms is related to the empowerment of shareholders. It may be a benefits enhancer. The family ownership performs better and has access to their networks. Hence, results found that firms attracted overseas investment and performed better. The companies should consider the FO and BS to maximize systemic benefits and compensate for weaknesses as foreign ownership FO and board size BS negatively influences ROA and CO TOBIN'SQ (Shaikh & Randhawa, 2022). Previous studies found that corporate governance has a positive impact on firm performance (Tobin's Q) and return on assets (Ciftci, 2019). The results imply that, when (CG) practices increase, then it increases the value of shareholders and saves the stakeholder's interest. It improves the financial performance of the firms and vice versa.

Implications

This study provides value to the firm's investors and other stakeholders. It helps the firm in difficulties. The managers will be able to know about the Agency theory challenge that successful corporate governance improves the ability of the company. It diminishes the conflicts of the agency. Managers could be able to compare the competence of directors. The external directors are higher in proportion than internal directors are. This study will be helpful for the managers to believe in good governance. It helps to understand the importance of CG practices. It supports benefits and purposes among the company managers and finance providers. Shaikh and Randhawa (2022) results reveal governance of a corporate is the main determinant for change in technology and

innovation. This study helps the manager to understand the innovation importance for their company with different technology.

Basterretxea et al. (2022) argued that meetings for (CG) practices are important. The completion of the task increases the chances of achievement. If (BOD) meets with the set schedule, it makes it possible to resolve the issue, problems, and management monitoring efficiently. It performs better duties, for instance, managing the interest of shareholders. This research would be helpful for the firms and stakeholders. A good corporate governance system ensures a transparent process that facilitates quality reporting. It inspires an investor's confidence. Corporate governance specifies the responsibilities & rights distribution between stakeholders of a corporate (including directors, managers & shareowners).

FUTURE RECOMMENDATIONS

This study has several executions for the firm's governance and financial distress. This study is only focused on internal control rather than an external control system. Additionally, this research is conducted in the context of non-financial companies only. However, future research should be conducted on financial companies in Pakistan. This research has been done on manufacturing firms only. This research can apply to different industries like textile, automobile, and fuel. However, this research can use different proxies of financial performance and add variables such as financial distress. The results suggest that companies should maximize the foreign ownership and board size to increase systemic benefits. It helps to compensate for weaknesses.

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