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CORPORATE GOVERNANCE AND FINANCIAL PROSPERITY: INSIGHTS FROM PAKISTAN

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Abstract

This study delves into the intricate relationship between corporate governance (CG), as measured by the Corporate Governance Index (CGI), national governance, and the financial performance of non-financial firms in Pakistan. It assesses CG through three sub-indices focusing on board characteristics, information dissemination, and ownership structure, while financial performance is gauged using market-based indicators like Return on Assets and accounting-based metrics such as Tobin's Q. National governance indicators, covering regulatory quality, accountability, political stability, rule of law, corruption control, and governance effectiveness, are also scrutinized alongside control variables like company size and age. Employing a purposive sampling methodology, non-financial organizations listed on Pakistani stock markets from 2013 to 2022 are examined. The study utilizes both Tobin's Q and return on assets methodologies to compute the dependent variable and adopts a deductive, quantitative approach grounded in positivism to systematically test hypotheses derived from existing literature. Through diagnostic tests and multivariate analysis, the research contributes insights into the integration of national and corporate governance dynamics and their consequential impact on financial performance, offering pertinent policy recommendations for stakeholders.

Keywords: *CG; Country level governance; Financial performance; ROA; Tobin's Q.*

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1. Introduction

Corporate governance (CG) remains a topic of interest in financial and public media. Wells Fargo and Equifax were recently involved in significant crises, as were other large publicly traded US companies. Major bank failures sparked the 2008 financial crisis. Earlier scandals at the beginning of the millennium led to the downfall of Enron, WorldCom, Tyco, and Qwest. Policymakers scrutinized the corporate governance practices of these corporations following each scandal. This prompted demands for increased corporate supervision and regulations, exemplified by the Sarbanes-Oxley Act of 2002 and the Dodd-Frank Act of 2010. The recent failures of Wells Fargo and Equifax challenge this narrative, particularly in light of the Dodd-Frank Act of 2010 aimed at regulating the financial sector.

Reliability, utility, and relevance of accounting information are crucial for corporate decision-making. These factors assist consumers of accounting information in verifying or rectifying previous decisions or computing (DeFond, 2010). Objective accounting data is highly esteemed and dependable. Market stakeholders prioritize profit quality to enhance financial decision-making (Gaio & Raposo, 2011). According to Ismail & Elbolok (2011), stakeholders are deceived by low-profit quality. Emerging economies exhibit higher earnings manipulation and fabrication levels than developed nations. According to Leuz et al. (2003) and Pincus (2007), investor trust in stated profitability decreases. Corporate governance can mitigate the impact of discretionary accounting practices (Chen et al., 2010).

Research on corporate governance (CG) and financial performance mainly focuses on established and emerging economies. Can corporate governance account for variations in financial performance? Praveen Bhasa (2004) stated that cultural, political, and law variances lead to varying corporate governance standards, influenced by economic conditions and hindering standardization. Claessens and Yurtoglu (2013) identified various challenges facing corporate governance in developing countries, such as complex ownership structures, low institutional ownership, and underdeveloped financial markets. The variations provide challenges in interpreting emerging economy research with mature economy models. Carney et al. (2009) suggest that the Anglo-US governance structure may be less effective in emerging countries compared to the UK and US. George and Beddewela (2023) assert that the national setting

influences corporate governance methods. This link is more robust in developed economies. This study examines the impact of country-level governance (CLG) on the financial performance of firms in emerging economies such as Pakistan.

1.2. Problem Statement

Empirical evidence highlights that the main goal of publicly traded companies is to generate profits in line with maximizing wealth. Stakeholders prioritize reported profitability even though they face difficulties in obtaining managerial information. Prior research has shown that accurate financial records are crucial for credibility, as weak corporate governance and insufficient oversight in developing countries can result in financial data manipulation, negatively impacting firms' economic well-being. Issues connected to governance have a substantial impact on investor decision-making, leading to the implementation of laws like the Sarbanes-Oxley Act of 2002. This act requires strict corporate governance practices to enhance accountability in yearly financial reporting. Efficient governance reduces management interference, prejudice, and costs in several operational aspects (Degeorge et al., 2013). This study examines how corporate and national governance affect the financial performance of non-financial firms in Pakistan. It uses a unique index based on the CG 2012 code to assess corporate governance and accounting-based methods like ROA, as well as market-based indicators such as Tobin's Q, to evaluate financial performance (Yu et al., 2018; Pintae, 2014). The governance components will be assessed using Kaufman et al.'s (2011) country-level measures, which include political stability, rule of law, corruption control, governance effectiveness, voice and accountability, and regulatory quality.

1.3 Research Objectives

I. To determine the influence of CG factors on accounting performance (ROA) of non-financial firms of Pakistan.

II. To investigate the impact of CLG factors on accounting performance (ROA) in the framework of non-financial Pakistani firms.

III. To determine the effect of CG factors on market performance (Tobin’s Q) of non-financial firms of Pakistan.

IV. To examine the impact of CLG factors on market performance (Tobin's Q) in context of Pakistani non-financial firms.

1.4 Research Questions

I. Whatever is the influence of CG and CLG factors on accounting performance (ROA)?

II. What is the impact of CG and CLG factors on market performance (Tobin's Q)?

2. Literature Review

2.1 Corporate Governance

Corporate Governance (CG) has emerged as a new field of study in the last three decades (Denis, 2001). Corporate governance is defined variably in different sources, such as Shleifer and Vishny (1997) and OECD (1999). Scientists and researchers categorize definitions as "broad" or "narrow." This categorization is based on whether a corporate governance framework emphasizes shareholder pleasure or considers the interests of all stakeholders. A "narrow" corporate governance framework prioritizes shareholders. Shahab et al. (2022) extensively cover many stakeholder concerns (Gull et al., 2023).

Some scholars have restricted the concept of corporate governance. Shahab et al. (2022) define it as a structure where directors are given certain functions and obligations to manage the company's operations. Gull et al. (2023) define it as "methods to ensure that corporate actions, agents, and assets are aligned with the corporate objective established by the company's shareholders." These criteria notably prioritize the enhancement of shareholder value. Sir Adrian provides a comprehensive definition of CG (World Bank Report, 1999 on page 7). The focus is on achieving a balance between economic and social goals and individual and collective goals to align the interests of individuals, corporations, and society. Another person states that the system of checks and balances, both within and outside corporations, guarantees that companies fulfill their obligations to all stakeholders and behave socially in all aspects of their commercial activities (Khatib & Nour, 2021).

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2.1.1 The External CG System

Many external factors have an impact on how Corporate Governance (CG) is formed in Pakistan. This mostly consists of important financial regulatory organizations and law enforcement agencies tasked with enforcing commercial legislation. In order to achieve specific requirements, companies are obligated to fulfill additional tasks that are mandated by legislation and legislative instruments. Several well-known organizations and bodies, including the Ministry of Finance (MOF), the Security and Exchange Commission of Pakistan (SECP), the State Bank of Pakistan, and the Karachi Stock Exchange (KSE), have an impact on Pakistan's external CG system.

2.1.2 The Pakistani Code of CG (PCCG)

The Companies Act of 1984 contains strict regulations and legal obligations. Pakistan needed to establish a code of ethics and good governance to adhere to regulatory standards, safeguard shareholders and stakeholders, and align with the institutional framework. After the 1997–1998 Asian Financial Crises (AFC), the Pakistani government acknowledged the necessity of a regulated capital market framework. The primary objective of this framework was to protect corporate autonomy and safeguard the financial concerns of investors.

The Pakistani Corporate Governance Act of March 2002 improved corporate governance norms in Pakistan. SEC and ICAP worked together on the coding. The majority concur that the CG code propelled the national CG industry. The Pakistani Corporate Governance (CG) code incorporates high-quality CG practices from codes of other nations. Ibrahim et al. (2006) stated that South Africa and the UK played a significant role in influencing Pakistan's development in computer graphics.

A code modification in 2012 emphasized the importance of adhering to all regulations. The 2012 updated Corporate Governance Code modified a company's governance framework, which encompassed alterations in the responsibilities of the chief financial officer and chief executive officer, financial statement approvals, Board presentations, independent directors, and internal and external auditors. Reporting and compliance were also key focuses of the revised code. CGI is based on the research by Javid and Iqbal (2010). The individual factor score ranges from 0 to 100. There are three sub indices in the code. Sub-Index-I provides information about boards.

Protect against revealing information. Sub-Index-III covers information on shareholdings, dividend policy, and ownership structure.

2.2 Country Level Governance

Many studies in law and finance focus on domestic governance structures. George and Beddewela (2023) assert that these organizations reduce principal-agent conflicts. Hsu and Liao (2022) discovered that nations with robust governance institutions, including legal structures and specific safeguards for creditors and investors, are more likely to cultivate advanced financial systems. According to Shahab et al. (2022), legal safeguards for financial actors could enhance investor confidence in the market's investment performance. The rule of law upholds legal ethics and safeguards private property rights. Legal protections enable companies to get external loans and equity funding. Almashhadani and Almashhadani (2022) assert that shareholder safeguards guarantee that firm executives fulfill their obligations to external investors. Gull et al. (2023) argue that allowing directors to act in their own best interests safeguards the rights of minority shareholders. Ananzeh (2022) found that creditors are more likely to default during financial crises. Therefore, a law safeguarding creditors from such harm is essential. El-Chaarani (2022) highlights the significance of maintaining consistent loan availability during crises and the role of enhanced creditor rights. Khatib et al. (2022) stated that improving court procedures can increase the effectiveness of debt collection. Enhancing legal protection for creditors during financial crises could improve company performance, given that all other factors stay unchanged.

Bertrand and Orazalin (2019) suggest that during financial crises, CEOs and controlling shareholders may be incentivized to decrease the enterprise's value. These actions may include intentional defaults on credit commitments or opportunistic expropriation. According to Gerged and Beddewela (2023), businesses in countries with inadequate safeguards for minority shareholders are more vulnerable to expropriation. Even a slight decrease in investor confidence during a financial crisis can make the country susceptible to risks. These organizations' efficacy may remain constant.

The evaluation of country-level governance will be based on the criteria of voice and accountability (VA), political stability and absence of violence (PSAV), governance

effectiveness (GE), regulatory quality (RQ), rule of law (ROL), and corruption control, using the available sources.

2.3 Financial Performance

Publicly traded corporations aim to generate profits. These managers strive to optimize shareholder wealth or business value. Wealth can be assessed by book value, stock price, discounted cash flows' net present value, profitability, Tobin's q, market capitalization, and enterprise value (Si et al., 2023). The researcher employs accounting techniques and a strategic long-term approach to analyze financial performance.

2.3.1 Accounting-Based Method

Accounting-based methods often improve a company's financial health. This method assesses a company's finances. This study used accounting approaches, especially Return on Assets, to assess financial performance. Businesses utilize the Return on Assets (ROA) ratio to assess asset utilization and profitability. A company's return on assets is net income divided by asset value.

2.3.2 Market-Based Method

The market-based approach to financial success focuses on shareholders, not stakeholders. The computations are also less affected by accounting constraints. Using the market-based method, the researcher uses Tobin's q to assess organizations' financial performance. Brainard and Tobins ()1968) established Tobin's q, a popular framework. It represents the market value/asset replacement cost ratio.

2.4 Control Variable

Many research papers accept non-interest variables as moderating, intervening, or regulating factors. The model must include these variables to adequately represent the independent variables' effects on the dependent variable. In the literature review, Mohammad and Wasiuzzaman (2021) and Galbreath (2012) used firm size as a control variable. The McWilliams and Siegel (2001) study combined business size and age. Firm size and age will be control or confounding variables in this multiple linear regression analysis.2.6 Theoretical Frame Work

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Establishing a causal link between CG, CLG, and FP is the primary goal of this study. The correlation between the dependent and independent variables is shown in the graphic here.

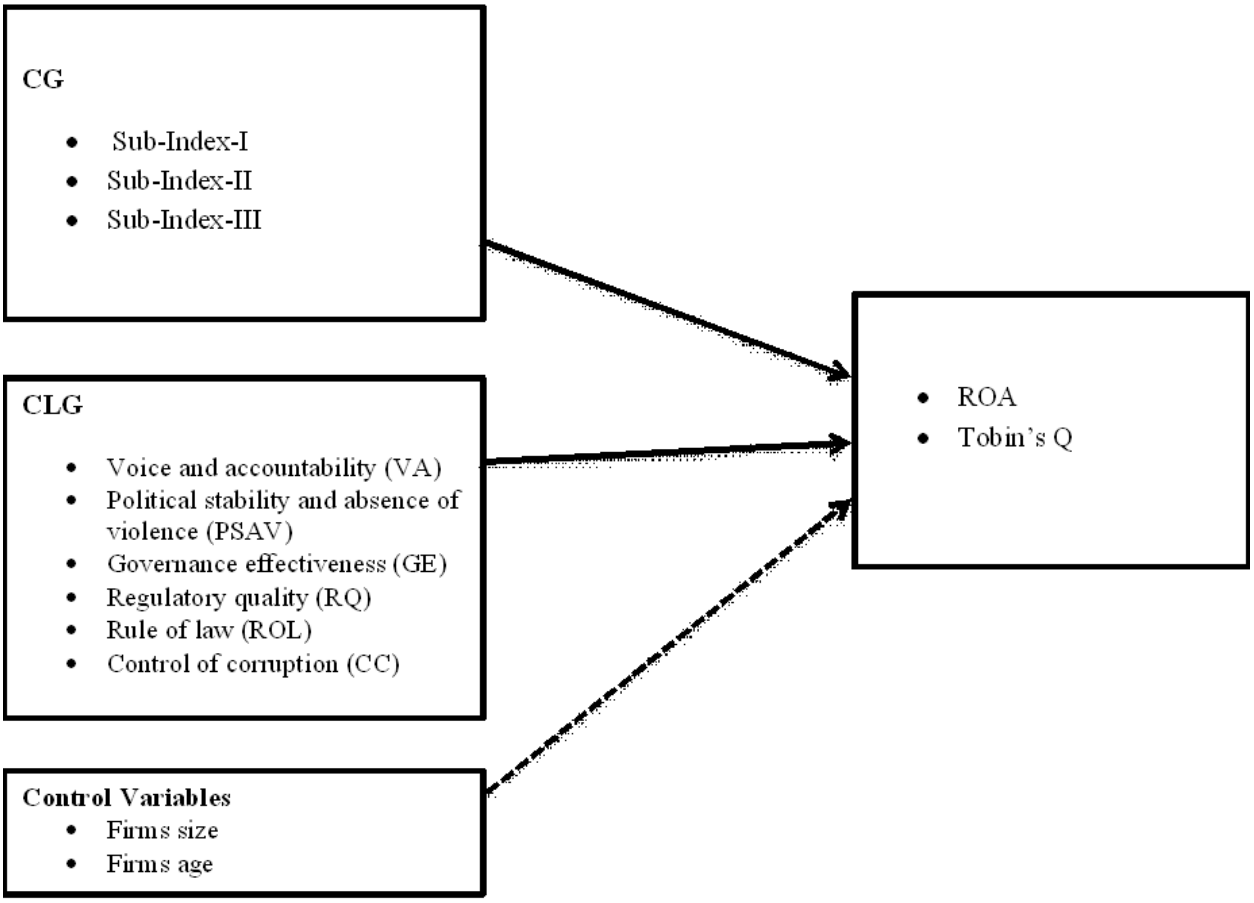

Figure 2.1 Relationship between CG, CLG, and Financial Performance

Research Methodology

The study uses an analytical research process to examine pre-existing information or data to conclude. The study includes all non-financial enterprises listed on the Pakistan Stock Exchange (PSE), with the sample comprising all currently available firms. The temporal scope covers a decade, from 2013 to 2022. Panel data is used to collect and analyse data from different databases such as WGI and the World Bank and yearly reports of organisations. The process

involves using Principal Component Analysis (PCA) to reduce dimensionality, recognise patterns and utilise descriptive statistics to summarise and interpret the data. Diagnostic tests confirm the analysis's robustness, including assessments for multicollinearity, homoscedasticity, normalcy, and linearity. Moreover, multivariate analysis approaches are used to simultaneously investigate connections between numerous variables.

3.4 Variables Selections

3.4.1 Dependent Variable

The dependent variable is financial performance. Researcher will use two approaches for measuring financial performance, one is return on assets (ROA), and other is Tobin's Q.

Table 3.1 Explanation of the DVs

Variables	**Definitions**	**Sources**
ROA (return on assets)	It is calculated by net income divided by total assets.	Yu et all (2018), Xie et all (2018),
TQs (Tobin's Q)	It is computed using the replacement cost of all assets and the market value of equity and debt book values.	Yu et all (2018)

3.4.2 Independent Variables

The independent variables for this study are CG and CLG.

Table 3.2 Explanation of the Independent Variables

Variables	**Explanations**	**Source**
CG		
CGI Sub-Index-I Sub-Index-II Sub-Index-III	The measurement of CG is carried out using CGI as a representative proxy. Sub-Index-I Shows board characteristics. Sub-Index-II Covers disclosure of information.	Ahtisham et al. (2019) Muhammad Yar (2016) Javid and Iqbal (2010)

	Sub-Index-III Reports ownership structure, policies of dividend and pattern of shareholdings.	
CLG Index	The measurement of country-level governance will be conducted using CLGI as a representative proxy. This measure will encompass the following components: (a) VA (b) PSAV (c) GE (d) RQ (e) ROL (f) CC	Kaufman (2005), Petzer et all (2012), Hegbrant and Hellberg (2014)

3.4.3 Control Variable

In this study the researcher will control the consequence of some variables. Through the help of logarithmic transformation the outcome of these variables is normalized (Lee, 2012).

Table 3.3 control variables

Variable	**Explanation**	**Source**
• Firms Size	Deliberate by log of total assets	Taib & Ming (2023) Dawood et al, (2023)
• Firms Age	The metric is established based on the company's age and the length of time it has been trading on the stock exchange	Gandía, (2008), Thomas, (2012)

3.5 Research Hypotheses

The following hypotheses are used to guide the research study.

Hypothesis 1: CH has positively correlation with the FP of firms.

Hypothesis 2: CLG has positively correlation with the FP of firms.

3.6 Research Model

Equation (3.1) depicts the relation involving financial performance, CG, country-level governance, firm size, and firm age. Within this equation, α stands for the intercept, β1 signifies the slope (beta coefficient), and e represents the error term. This equation outlines the relationship concerning ROA (Return on Assets).

$$ROA=\alpha+\beta_1 CG + \beta_2 CLG+ \beta_3 SIZ+ \beta_4 AGE+ \varepsilon i,t \quad (3.1)$$

Equation (3.2) shows the association in terms of Tobin's Q.

$$TQ=\alpha+\beta_1 CG + \beta_2 CLG+ \beta_3 SIZ+ \beta_4 AGE+ \varepsilon i,t \quad (3.2)$$

Table 3.4 Proposed Methodologies

RQ	Research objectives	Used methodology
1.	To inspect the outcome of CG and CLG on financial performance.	Principal component analysis (PCA) Descriptive statistics, Diagnostic tests, (colinearity, homoscedasticity, normality and linearity) Multivariate analysis,

Analysis

4.2 An examination of market performance

This section of the paper detailed various methods for evaluating market performance. The part commences with descriptive statistics followed by regression analysis diagnostic tests. The study analyzed data from 60 companies over a decade. ROA and Tobin's ratios are utilized for assessing financial performance. Corporate governance is assessed using three sub-indexes (I, II, III), while country governance is evaluated using CLG. Control variables include firm size and age. The researcher utilizes a self-developed CG index and binary coding for the corporate governance index. Assign 1 to organizations with required qualities; otherwise, assign 0, as per Khan (2016). Binary encoding improves precision and uniformity.

4.2.1 Descriptive Statistics for financial Performance

Table 4.1 presents the descriptive data on the financial performance of non-financial enterprises operating in Pakistan.

The table presents the aggregate of all observations, amounting to sixty. With a standard deviation of 1.1531, the average (mean) value for TQ is 0.8537, or 85%, displaying financial performance of non-financial enterprises in exhibits significant diversity Pakistan. The performance Ranges from a minimum value is -2.7918 up to a maximum amount 2.721. The mean (average) amount for Return on Assets (ROA) is 12.152 with the variation (standard deviation of 10.54), displaying financial performance of non-financial enterprises in significant diversity Pakistan. The range of performance starts at a minimum is 58.42 up to a maximum amount 74.19. The Average (mean) value for SUB-I is 13.243 with the variation (standard deviation of 1.691), displaying financial performance of non-financial enterprises in Pakistan significant diversity Pakistan. The range of performance starts at a minimum is 10 to a maximum amount is 18. The Average (mean) value for SUB-II is 12.293 with the variation (standard deviation of 1.15), displaying financial performance of non-financial enterprises in Pakistan significant diversity Pakistan. The performance has a range of values from 10 at the lowest to 18 at the highest. The CLG has a standard deviation of 8.611 and a mean value of 123.411. The minimum value is 111.891, and the largest value is 136.23. The Average (mean) value for SUB-III is 25.71 with the variation (standard deviation of 1.915), displaying financial performance of non-financial enterprises in Pakistan exhibits significant diversity Pakistan. The range of performance begins at 22 and goes up to 30 as the maximum value. The Average (mean) value for SIZE is 7.038 with the variation (standard deviation of 8.611), displaying financial performance of non-financial enterprises in Pakistan significant diversity Pakistan. The range of performance starts at a minimum is 5.253 to the highest possible value 7.039. The Average (mean) value for age is 43.633 with the variation (standard deviation of 16.862), displaying financial performance of non-financial enterprises in Pakistan significant diversity Pakistan. The performance is measured in steps, with 13 being the lowest and 73 being the highest.

Table 4.1 Financial Performance Descriptive Summary

Variable	N	Mean	Std. dev.	Median	Min	Max
TQ	60	-.85378	1.1531	-1.167406	-2.7918	2.721785
ROA	60	12.15842	10.5466	9.975	-58.42	74.19
SUB-I	60	13.243	1.691	13	10	18
SUB-II	60	12.293	1.152	12	10	19
SUB-III	60	25.71	1.915	25	22	30
CLG	60	123.411	8.611	123.2838	111.891	136.234
SIZE	60	7.038	.714	6.984861	5.253	10.041
AGE	60	43.633	16.862	40.5	13	73

This Table presents the descriptive statistics of Financial Performance for non-financial firms of Pakistan. Financial performance is calculated by ROA (returns on Assets) and Tobin's Q (TQ). Governance level indictors consist on Sub-I, Sub-II and sub-III. Other independent variable is CLG (country level governance). The control variable for the study are SIZE(firm size)and AGE (firm age).

4.2.2 Test of Regression Analysis Diagnostics

Prior to performing regression analysis for the current investigation, several Tests for diagnosis were performed to assess the suitability of the data for multiple regression analysis. In order for regression models to be considered valid, the data must adhere to four key assumptions:

Normality means that the data follows a normal distribution.

Linearity indicates a linear association among the independent and dependent variables.

Homoscedasticity means that the residuals' variability is constant across all levels of the independent variables.

Collinearity refers to the absence of strong correlations between the independent variables.

The next part presents the results of the previously described diagnostic procedures.

4.2.2.1 Normality

A normal distribution is assumed by the normalcy assumptions for the means of an independent sample. More specifically, the assumption of normalcy holds that the distribution of sample means or the distribution of means over multiple samples has a normal distribution. The current study utilized the Jorque-Bara test, skewness, and kurtosis tests to evaluate the normalcy. These tests are non-parametric and allow for comparing the shape of a sample, such as the normal distribution, to several commonly observed forms. The skewness and kurtosis measurements support the notion that the data conforms to a normal distribution. The assessment of the data's normalcy is showed in Table 4.2.

Table 4.2 Test the residual for normality

Variables	**Skew**	**Kurt**	**Jorque Bara test (P-value)**
TQ	1.816055	5.510591	2.04
ROA	.8130178	6.331039	1.21
SUB-I	.476	3.05	8.708
SUB-II	-.163	2.741	1
SUB-III	.198	1.996	.216
CLG	.083	1.559	.662
SIZE	.41	2.801	6.13
AGE	.187	1.908	29.216

The table displays the results of the residual normality test for skewness and kurtosis. These tests assess the null hypothesis that residuals conform to a normal distribution, as opposed to the alternative hypothesis, which suggests that residuals depart from a normal distribution.

Furthermore, the Jourque-Bara test confirms the adherence of the data to a normal distribution. P-values greater than 0.05 suggest insufficient evidence to reject the null hypothesis for the tested variables that the residuals conform to a normal distribution. The outcomes of these two assessments allow the researcher to use the information for additional investigation.

4.2.2.2 Linearity

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Regression analysis and linearity are presumptive. A direct and constant the correlation between the independent and dependent variables is referred to as "linearity". Crucially, regression analysis is based on the notion that it only considers the independent and dependent variables' linear connection. There is no consideration given to any possible nonlinear link between the independent elements and the dependent variable. The current study used the natural logarithm to convert numbers provided in several units, including days, years, ratios, squares, and square roots, in order to create a direct link between the dependent and independent variables.

4.2.2.3 Homoscedasticity Test

Homoscedasticity dictates that the error terms of regressions should demonstrate a uniform variance across all observations. Any departure from this assumption will lead to an estimation of the standard error that needs to be revised. Inaccurate inferences may ensue from erroneous test statistics introduced by an erroneous standard error value. The current study utilizes the Breusch-Pagan/Cook-Weisberg test to examine this assumption.

Table 4.3 Homoscedasticity Test

Test	**Financial Performance**	
	Chi-square	**P-value**
Breusch-Pagan / Cook-Weisberg test	3.160.16	0.6914

An overview of the findings of the homoscedasticity test is given in the following table. To evaluate the null hypothesis—that the residuals are homoscedastic—as opposed to the alternative—that the residuals are heteroscedastic—the test is carried out using the Stata program command.

Table 4.3 provides an overview of the findings. The findings show that, because the p-values above 0.05, the chi-square worth determined for the market performance period is not statistically significant. The null hypothesis, which maintains that the data are homoscedastic, is sufficiently supported by this. Researchers were able to use the data for further investigation thanks to the results.

4.2.2.4 Collinearity

Multiple regression analysis requires no multicollinearity. Multicollinearity occurs when independent variables are linear. Unbounded standard errors and ambiguous regression coefficients result from perfect multicollinearity (Gujarati & Porter, 2009). Pairwise correlation between repressors can reveal multicollinearity. A high zero-order correlation between variables may indicate multicollinearity. A significant correlation among explanatory variables may cause inflated and volatile p-values since it becomes difficult to establish which variables explain the observed occurrence. Even with imperfect collinearity, regression coefficients can be estimated.

However, their standard errors are significant (Gujarati & Porter, 2009). Academics recommend no more than 70% correlation between variables (Greene, 2003; Gujarati, 2012). A score over 70% indicates multicollinearity and should be considered concerning.

Table 4.4 Matrix of Correlations for Financial Performance (Return on assets)

Variables	*(1)*	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*
(1) ROA	1.000						
(2) SUB-I	-0.058	1.000					
	(0.156)						
(3) SUB-II	0.087**	-0.025	1.000				
	(0.033)	(0.535)					
(4) SUB-III	-0.047	0.477***	0.046	1.000			
	(0.250)	(0.000)	(0.264)				
(5) CLG	-0.011	0.077**	-0.040	-0.008	1.000		
	(0.784)	(0.058)	(0.326)	(0.852)			
(6) SIZE	0.060	-0.032	0.080*	-0.086**	0.112***	1.000	
	(0.144)	(0.434)	(0.051)	(0.035)	(0.006)		
(7) AGE	0.037	0.017	-0.056	-0.094	0.000	-0.025	1.000
	(0.368)	(0.669)	(0.171)	(0.021)	(1.000)	(0.549)	

The Pearson correlation coefficients between the variables are shown in this table along with the associated significance levels. ROA is used to calculate financial performance. The governance level indicators include Sub-I, Sub-II, and Sub-III. Another independent variable is CLG, which

*stands for country-level government. The study's control variables are SIZE, which represents firm size, and AGE, which represents firm age. The symbols *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.*

In order to address this initial assumption, the present study investigates the collinearity among variables through the use of two methods: (i) correlation matrix and (ii) variance inflation factor (VIF). The correlation matrix of independent variables is displayed in Table 4.4 and Table 4.5. Corporate-level governance is assessed using sub-indexes, sub-index-I, sub-index-IIsub-index-II, and sub-index-III. Country-level governance, on the other hand, is evaluated using CLG. The control variables in this study are the size and age of the firm. The correlation coefficients and their respective significance levels of 1%, 5%, and 10% are displayed.

Table 4.5 Matrix of Correlations for Financial Performance (TQ)

Variables	*(1)*	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*
(1) TQ	1.000						
(2) SUB-I	-0.002	1.000					
	(0.965)						
(3) SUB-II	-0.043	-0.025	1.000				
	(0.291)	(0.535)					
(4) SUB-III	0.006	0.477***	0.046	1.000			
	(0.879)	(0.000)	(0.264)				
(5) CLG	0.062	0.077*	-0.040	-0.008	1.000		
	(0.131)	(0.058)	(0.326)	(0.852)			
(6) SIZE	0.116***	-0.032	0.080*	-0.086**	0.112***	1.000	
	(0.004)	(0.434)	(0.051)	(0.035)	(0.006)		
(7) AGE	-0.006	0.017	-0.056	-0.094**	0.000	-0.025	1.000
	(0.879)	(0.669)	(0.171)	(0.021)	(1.000)	(0.549)	

This table displays the Pearson correlation coefficients between variables and their corresponding significance levels. TQ calculates financial performance. The governance level indicators consist of Sub-I, Sub-II, and Sub-III. Another independent variable is CLG, which

*stands for country-level government. The research incorporates two control variables: "AGE" to represent the age of the company and "SIZE" to represent its scale. The symbols *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.*

The variables demonstrate no multicollinearity, as observed in Tables 4.4 and 4.5. Since all the correlation coefficients are below 0.7, there is no meaningful correlation between the variables in the two tables. The variance inflation factor (VIF) is utilized in this study as an additional analytical technique to assess the presence of multicollinearity among variables. According to Greene's (2003) definition, multicollinearity occurs when the Variance Inflation Factor (VIF) exceeds 10. Table 4.6 presents a concise overview of the financial performance of the VIF research.

Table 4.6 Variance Inflation Factor

	VIF	**1/VIF**
SUBIII	1.329	.752
SUBI	1.315	.761
SIZE	1.029	.971
CLG	1.023	.977
AGE	1.017	.983
SUBII	1.016	.984
Mean VIF	1.122	.

The results of the Variance Inflation Factor (VIF) for each independent variable are shown in the table below aiming to facilitate the examination of the financial performance of non-financial enterprises in Pakistan.

The data presented in Table 4.6 indicates no multicollinearity among the variables, as each Variable Inflation Factor (VIF) value is below 10. The investigator utilized the information based on the outcomes to generate additional inquiries.

4.3 Ordinary Least Square (OLS) to explain Financial Performance

A linear regression model's unknown parameters can be estimated statistically using the ordinary least squares (OLS) occasionally known as the linear least squares model. The aim is to minimize the sum of squared discrepancies, in a given dataset, between the expected responses obtained from a linear function of a collection of explanatory variables and the observed responses (values of the variable being forecasted).

4.3.1 Financial Performance Regression Analysis

The current research uses a multivariate analysis to examine the linear association among the latter and the factors influencing financial performance. The financial performance is evaluated using Tobin's Q (TQ) and return on assets (ROA). Subject-I, Subject-II, and Subject-III rule at the corporate level. CLG is used to calculate the governance-level at the national-level. The firm's size and age make up the control variables.

$$ROA=\alpha+\beta_1 SUB\text{-}I+\beta_2 SUB\text{-}II+\beta_3 SUB\text{-}III+\beta_4 CLG+\beta_5 SIZE+\beta_6 AGE+\varepsilon i,t \quad (4.1)$$

Model 4.1 Gives the relationship between the financial performance's independent and dependent variables. of non-financial firm operating in Pakistan. Financial performance is calculated by ROA (return on assets). SUB-I, SUB-II and SUB-III are the corporate level governance. The country level governance is calculated through CLG. SIZE is firm size and AGE is firm age. α is intercept andβ is slope while ε is error term.

$$TQ=\alpha+\beta_1 SUB\text{-}I+\beta_2 SUB\text{-}II+\beta_3 SUB\text{-}III+\beta_4 CLG+\beta_5 SIZE+\beta_6 AGE+\varepsilon i,t \quad (4.2)$$

Model 4.2 provides the association between dependent and independent variable for financial performance of non-financial firm operating in Pakistan. Financial performance is calculated by TQ (Tobin’s Q). SUB-I, SUB-II and SUB-III are the corporate level governance. The country level governance is calculated through CLG. SIZE is firm size and AGE is firm age. α is intercept andβ is slope while ε is error term.

4.3.2 Regression Analysis for ROA

Table 4.7 shows financial performance regression. There were 60 observations. The model's validity is assessed using R-squared and F-value. The determination coefficient (R-squared) is 0.207. This score means independent variables explain 20% of non-financial enterprise financial performance variability. A 5% F-value indicates that the model is significant and can be studied. CLG, SUB-I, and SUB-II positively correlate with ROA. Thus, SUB-I, SUB-II, AGE, and CLG improve market performance. Size has a significant and inverse link with ROA. Their scale may hurt Pakistani non-financial firms' finances. SUB-III requires additional results.

Table 4.7 Regression Analysis for ROA

ROA	**Coef.**	**St.Err.**	**p-value**
SUB-I	.017**	.082	.039
SUB-II	.402***	.075	0
SUB-III	.011	.058	.848
CLG	.008**	.004	.033
SIZE	-1.08**	.472	.026
AGE	.08***	.024	.002
R-squared	0.207	**Number of obs**	60.000
F-test	2.09	**Prob > F**	0.0525

The regression analysis for ROA is displayed in this table. ROA is a measure of financial performance. Governance level indictors consist on Sub-I, Sub-II and sub-III. Other independent variable is CLG (country level governance). The control variable for the study are SIZE (firm size) and AGE (firm age)., **, *** represents 10%, 5% and 1% statistical significance.*

4.3.3 Regression Analysis for TQ

The regression outcome for financial performance (TQ) is presented in Table 4.8. There were a total of sixty observations. The model's validity is evaluated by utilizing the R-squared and F-value metrics. The coefficient of determination (R-squared) is 0.458, signifying that the independent variables explain 45% of the overall variability in the financial performance of non-financial enterprises. With an F-value of 1%, the statistical analysis confirms that the overall model is noteworthy and can be further employed for extra investigation. The correlation between SUB-II, SUB-III, CLG, and TQ is statistically significant and shows a favorable association. These findings suggest that SUB-III and CLG positively impact market performance. There exists a substantial and adverse association between the variables of SIZE

and TQ. It suggests that the financial performance of non-financial companies in Pakistan is adversely impact by SUB-II and the company's size. The findings of the SUB-I and AGE variables are not statistically significant.

Table 4.8 Regression Analysis for TQ

TQ	**Coef.**	**St.Err.**	**P-value**
SUB-I	-.048	.031	.13
SUB-II	1.261***	.081	0.000
SUB-III	.721***	.039	0.000
CLG	.301***	.004	0.000
SIZE	-2.905***	.401	0.000
AGE	.002	.003	.586
R-squared	0.458	**Number of obs**	60.000
F-test	4.676***	**Prob > F**	0.000

The OLS regression findings for financial performance are displayed in this table. The variable that is dependent is TQ. Financial performance is calculated by TQ. Governance level indictors consist on Sub-I, Sub-II and sub-III. Other independent variable is CLG (country level governance). The control variable for the study are SIZE (firm size) and AGE (firm age)., **, *** represents statistically significant at 10%,5% and 1% respectively.*

4.4 Results Discussion

This study examines how corporate and national governance influences financial success. The study found that company and country-level governance increase Pakistani enterprises' financial performance. This finding supports the stakeholders' theory and previous research (e.g., Degeorge et al. (2013); Yu (2008); Kim and Sohn (2013a)) that a strong governance system with an efficient legal and regulatory framework, a well-functioning bureaucracy, and low corruption has supported financial sector growth. Financial information is more transparent in developed financial systems. Investors have access to equivalent information with such platforms. Contributing to improved country finances. Corporate governance (CG) boosts TQ significantly. Improved corporate governance reduces the agency problem caused by shareholder-manager information asymmetry.

Thus, strong company governance decreases information asymmetry and oversees management. Stewardship theory states that managers should put the organization's aims before their own. Pakistani organizations performed better after following the corporate governance code (CGC). Makhlof et al. (2018), Javaid and Saboor (2015), and Narwal and Jindal (2015) support the findings. El-habashay (2019) and Chiedu et al. (2022) found that good corporate governance boosts financial performance.

A separate segment found that statistically significant national governance traits improve financial success. These methods can help corporations protect minority shareholders. In stable countries, governments can also pass investor protection laws. Other research supports these conclusions (Bhattacharya et al., 2003; Haw, 2004; Saona, 2017).

The study confirms that firm size severely affects financial success. Aggarwal et al. (2010) and Li et al. (2018) found a negative association between business size and Tobin's Q. Results show that smaller firms are more productive and leveraged organizations are more profitable. These results show that the market views a larger company less favorably and that a more influential corporation will perform better. The market views a smaller company more favorably because it expects it to grow. An influential entity is seen as more important and profitable.

5. Conclusion

The main goal of this research is to establish how a country's government affects corporate governance. Most studies examined corporate governance (CG) and financial performance in developed and emerging economies. National governance must be prioritized. This study examines how corporate and national governance affects Pakistani non-financial enterprises' financial performance. Quantifying CG with CGI is representative. It will use three sub-indices. Sub-Index-I shows board attributes. Sub-Index-II covers disclosure. Sub-Index III details ownership, dividends, and shareholding.

Financial performance evaluation includes market-oriented metrics like Tobin's Q and accounting-oriented indicators like ROA (Yu et al., 2018; Pintae, 2014). This study will quantify governance traits using Kaufman et al. (2011) country-level measurements. Political stability, rule of law, corruption control, governance effectiveness, voice and accountability, and

regulatory quality are indicators. Firm tenure and size are control factors in this investigation. This analysis includes Pakistani stock exchange-listed non-financial enterprises from 2013 to 2022. The study used purposive sampling. The researcher chose organizations with all-year data using that method.

Two methods are used to calculate the dependent variable in this study. The accounting-based ROA and market-based Tobin's Q are distinct techniques. It combines firm-level governance criteria with country-level governance issues to further scholarship. Positive thinking guides this study. For this investigation, the investigator used reasoning. A deductive research approach tests a theory systematically. Quantitative methods are used to examine the extensive literature study and discussion. One can measure variables and examine hypotheses using quantitative methods. Panel data was analyzed using numerous diagnostic tests and multivariate analysis. The study found that corporate and country-level governance improves Pakistani non-financial firms' financial performance. As firms grow, both models' financial performance declines. Company lifetime is strongly correlated with return on assets (ROA) but not total quality. The study's policy recommendations and practical ramifications will help non-financial firms, shareholders, and regulators comprehend governance variables and financial performance.

5.1 Contribution of the Study

Research has been performed in Pakistan to study the effects of CG and other areas of the organization. Prior research (Batool & Javid, 2014; Wajid & Shah, 2017; Latif & Abdullah, 2015; Ilyas et al., 2018) has examined how corporate governance (CG) affects the financial performance of non-financial companies that are listed on the Pakistan Stock Exchange. Nevertheless, additional investigation is necessary to analyze these matters comprehensively. Hence, the current study examines corporate governance's impact on companies' performance. The CG Index comprises three sub-indices: The board attributes are indicated by Sub-Index-I. Sub-Index-II pertains to the dissemination of information. Sub-Index-III provides comprehensive information on the ownership structure, dividend policies, and shareholding pattern.

Given this, the current study aims to fill a gap in the existing literature concerning Pakistan's status as a developing country. This discrepancy has been recognized in previous studies

conducted by Ahtisham et al. (2019), Ilyas et al. (2018), Kamran and Shah (2014), and Lakhal (2015), among other researchers. Therefore, previous studies carried out in developing countries like Pakistan, where there is economic growth, cannot provide a conclusive response, and the issues under consideration remain a topic of debate. This research successfully addressed the controversial issues raised in past investigations while examining Pakistan as an emerging economy.

Moreover, this study provides significant insights into whether elements related to corporate leadership and governance (CLG) might improve the financial performance of corporations operating in developing countries. To address this issue, the present study utilized two metrics to evaluate the financial performance of the firm: one based on accounting rules (such as return on assets) and the other based on market forces (such as Tobin's Q).

5.2 Policy Implications

This research impacts non-financial businesses, including local and international investors and shareholders, management, and regulators. The study showed that corporate governance (CG) and corporate leadership governance (CLG) enhance the financial performance of non-financial firms in emerging countries. Local and global stakeholders who stand to gain from governance considerations require this information. This research assists shareholders and investors in determining whether to invest in governance. Research indicates that governance difficulties have a substantial impact on financial performance in both the short and long term. The results of this study are advantageous for policymakers and managers. They oversee their actions and resources. Their financial situation will ultimately become better. Organizations rely on the growth rate to stay competitive in the ever-changing business environment. Companies develop strategic plans if they comprehend their objectives, as stated by Carpenter and Petersen (2002).

The study guides regulators, public corporations, standard-setters, and individuals who manipulate financial statements. Companies should consider the investment impact of corporate governance (CG) and climate-related (CLG) decisions when developing sustainability reporting frameworks and guidelines.

Ahmad et al. (2021) discovered that buy-side investors (capital executives) and sell-side investors (firms) are increasingly focusing on corporate governance (CG) and corporate disclosure and metrics. According to Eccles et al. (2011), contemporary investors prioritize governance and financial performance. The study influences investors' perceptions of corporate governance.

This research can be utilized by emerging and developing economies. Stock exchanges and regulators should establish criteria for approving and registering bonds. Providing clear disclosure materials and templates will help with strategic implementation.

5.3 Limitations

Despite the current study's major contribution, it is crucial to recognize its many shortcomings, which can guide future researchers' investigations.

This study is carried out in emerging countries, such as Pakistan. Furthermore, this research investigates non-financial entities. This research specifically excludes financial institutions, such as insurance firms and banks.

Furthermore, Data is gathered from sixty different firms in total for this study due to constraints on time.

Another limitation of the research is that it was restricted to data from the previous decade.

5.4 Future Research Directions

This research provides corporate governance (CG) and corporate leadership and governance scholars with useful insights. However, some regions need more research. Initially, longer sampling is required in order to corroborate results. For instance, this research spans ten years. The financial performance effects of governance difficulties in developing nations should be assessed beyond the next decade. This will provide new perspectives and a wealth of information for shareholders, executives, legislators, and academics.

Additionally, future studies should incorporate more CG index components. This will help explain how complex aspects affect market financial performance.

This study directly linked governance and company performance. Future studies may examine how certain characteristics affect corporate governance and performance.

To conclude, future research should examine macroeconomic factors' influence on financial performance using a larger range of national variables. Macroeconomic statistics like GDP, GNP, and inflation still explain financial performance.

This study also seeks to fill the vacuum in empirical research on the relationship between firm governance practices and national governance variables. The researcher added corporate- and country-level governance variables for the first time. The study also showed that national governance boosts developing country enterprises' financial performance.

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