Heliyon 6 (2020) e03520

Contents lists available at ScienceDirect

Heliyon

journal homepage: www.cell.com/heliyon

Research article

Role of institutions in shaping corporate governance system: evidence from emerging economy

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ARTICLE INFO

Keywords:
Institutional theory
Determinants
Corporate governance
Agency theory
Ownership
Institutions
Qualitative
Interviews
NVivo
Themes
Corporate finance
Business
Business policy
Family business
Economics
Industry

ABSTRACT

Corporate governance (CG) is often split among rule and principle-based approaches to control in idiosyncratic institutional contexts. This split is often primed by the types of institutional conformations, their potencies, and the complementarities within them. Drawing on the theoretical foundation of institutional theory, this study theorizes CG practices and structures as institutionally resoluted and directed and explores the key institutional determinants of good CG practices in an emerging economy. Based on qualitative method, this study presents eight specific antecedents of good corporate governance practices in weak institutional settings (Pakistan). In particular, the study explores the extent to which certain underlying formal and informal institutional determinants, such as the auditing, political, legal, board, shareholders awareness, voting, culture and values play a determining role in corporate governance. This study advocates how each of these precursors must be implied, enunciated and hitched, on the basis of pertinent institutional peculiarities, in order to address contextual corporate governance challenges. This study contributes to the institutional theorizing of good corporate governance, by paying attention to the context, efficacy (instrumentality) and legitimacy (symbolic) in expounding the good corporate governance practices in an international business environment.

1. Introduction and background of study

The word governance is a broad and general. The particular application of governance is called corporate governance (CG) and it has subsets like organizational, political and economic governance. CG is a division of governance which is related to governance within an organizational structure. Recently, the importance of corporate governance has amplified due to classic cases of corporate frauds (Ntim and Danbolt, 2012), and economic crisis (Claessens and Yurtoglu, 2013) that triggered the need of stringent CG mechanisms. Similarly, Iturriaga (2009) contended investors' awareness is evolving due to these mega scandals which also result in popularity of CG codes and interests from governments and market regulators (Aguilera and Cuervo-Cazurra, 2009). Agency theory was protuberant perspective in raising modern CG discussions while Aguilera and Jackson (2003) argued that the agency theory is an "under-socialized" approach which is impervious to how institutions share the interests and identities among actors in CG system and only focuses on managers and shareholders. Different countries offer distinctive level of investors' protection and therefore agency costs differs (Porta et al., 1998) and the role of institutions is also very restricted from agency perspective. Similarly, scholars has contended that CG is formed by institutional factors, particularly, in international context (Creed et al., 2010; Peng et al., 2009; Williamson, 1989). This has headed to a growing appreciation of the institutional effects on CG in developed countries (Aguilera and Jackson, 2003; Aguilera, 2005; Lubatkin et al., 2007), however the literature is still limited in developing countries, having weak institutions. Scholars argued that social values are quite high in developing countries, especially in Asian developing countries, and corporate environment is embellished by these informal social relations (Arslan and Abidin, 2019; Arslan and Roudaki, 2017; Hussainey and Al-Nodel, 2008).

Researchers also argued that prevalent culture in emerging markets adds to the weak CG practices in those countries (Arslan et al., 2019; Rafiee and Sarabdeen, 2012) and suggests the adoption of cultural-cognitive system which may improve CG practices by harmonizing the key elements of normative and regulatory systems (Scott,

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https://doi.org/10.1016/j.heliyon.2020.e03520
Received 22 October 2019; Received in revised form 11 December 2019; Accepted 28 February 2020

2013). It is also found that firms must understand and negotiate to different environmental influences, including politics and culture, for its survival (Patel and Xavier, 2005). Aoki et al. (2001) argued that different stakeholders may adapt socially legitimate and institutionally accessible CG practices to build different coalitions due to high ownership concentration especially in emerging markets (Fan and Wong, 2005). Jackson (2010) argued that different forms of agency conflicts take place across different countries due to different shareholders concentration and social identifies of block holders. Firms in emerging markets may have different organizational activities from firms in developed markets (Wright et al., 2005; Young et al., 2008), therefore, CG problems may differ in these emerging markets and require different solution from the one which generated from agency perspectives (Lubatkin et al., 2005). Similarly, Aguilera et al. (2008) argued that effectiveness of diverse CG practices relies mainly on their fit to wider organizational context. It implies that though the institutional environment is imperative to CG discourse, key players in a business could equally affect the development of (negative) isomorphic tendencies in a business environment.

Emerging markets adapt the CG practices from developed countries while their institutional environment is divergent from developed markets. Thus, the policies designed for developed markets may be ineffective in emerging markets (Young et al., 2008) due to weak institutions (Gugler et al., 2003) and different capital market structures (Singh et al., 2005). Therefore, the utilization of agency theory is questioned. It is pivotal to see rich and comparative insights into institutions in order to understand CG systems worldwide (Filatotchev et al., 2013). Similarly, Mangena et al. (2012) and Filatotchev et al. (2013) argued that the institutional environment does affect board and ownership structures. Acemoglu et al. (2003) argued that it is critical to categorize the institutional differences between rich and poor countries. It is also imperative to comprehend existing studies related to institutional influence on CG. In developing countries, like Pakistan, some individuals might exercise their power which provide them an opportunity to influence institutional elements to gain personal benefits and interests. Therefore, it is critical to manage and develop this knowledge to promote CG in a developing country such as Pakistan. This highlights the need to explore effect of institutional environment on good CG practices in developing countries and finds the ways for local and international firms to promote good CG practices in presence of a weak institutional environment. Therefore, this study uses a case study of Pakistan to explore the key institutional determinants of good CG practices and suggests the ways to promote good CG practices at the firm level.

In Pakistan, only limited number of studies have been conducted to explore the institutional determinants of CG practices. The most relevant study is done by Arslan et al. (2019). This study is related to that study but also different in a number of ways. Therefore, this study has its own implications and contributions for academia and policy makers. The study of Arslan et al. (2019) was more focused on quantitative method (survey interviews) and qualitative findings were missing. However, scholars argued the need of qualitative CG studies (*see* Aguilera and Jackson (2010)). This provides us motivation to fill the gap and expound the qualitative findings in more detail. Hence, this study is fully dedicated to qualitative method (semi-structured interviews) and findings are supported from the existing theories and studies. This study contributes in the existing literature, aiming the use of qualitative stance in corporate governance studies. This study not only explores the different institutional determinants of good CG practices in Pakistan but also depicts the real situation from respondents' point of view through direct quote that are absent or limited in the existing studies (*see* Arslan et al. (2019)) on corporate governance. This study is detailed and expounds the qualitative findings (CG determinants) while the study of Arslan et al. (2019) only mentions the names of those.

The rest of the study is organized as follows. The next section expounds the literature review, followed by methodology in section three. Section four presents the findings and discussion while section five concludes the paper.

2. Literature review

Scholar argued that institutions are shaped and predetermined by the distinctive national system of the country (Douglass, 1990; Gustafsson et al., 2003). Gilson (1996) contended that institutions of relevant country matter in economic success of the firms. Scholars also found that powerful agents drive the political process of CG within Egyptian banks (Sorour and Howell, 2012) and among Egyptian listed firm (El-Diftar, 2016). Similarly, Jizi et al. (2014) contended that powerful CEOs take broad decisions which may not be in the best interests of the firms. Therefore, it can be argued that economic actors seem to have significant impact on the discretion of corporate governance. Some scholars also examined that effect of level of education on political institutions and found that well educated countries show extra stable democracies (Tikly and Barrett, 2011) from those poorly educated countries (Hanushek and Wößmann, 2007; Jones, 2016; Karatnycky, 2002). These findings support the argument of Lipset (1960) that political institutions matter more in high educated countries as compared to their counterparts.

Cuervo (2002) studied the paucities in shareholders' protection in continental European and Anglo-Saxon models of CG and found that the enforceability issue exists in Continental Europe that limits the use of CG codes. Scholars found that dominant religion (Hilary and Hui, 2009; McGuire et al., 2011) and prevailing culture (Haniffa and Cooke, 2002) are important for efficacy of CG codes. Additionally, legal institutions can also be defied by acceptability problems that also weaken their efficacy. Judge et al. (2008) found three pillars (such as legal institutions, culture and particularly, corruption) of institutionalization that drives the perceptions of CG at the country level. They also argued that global CG systems cannot be limited to Continental European or Anglo Saxon models (Judge et al., 2008).

Many scholars highlighted the issues of legal protection to minority shareholders in developing countries (Arslan et al., 2019; Hasan et al., 2014; Klapper and Love, 2004) that questions the role and effectiveness of legal institutions. In similar vein, societal elites are corrupt in many weak institutional contexts. Though, the institutional framework is vital but scholars still question its importance in developing a robust corporate governance system (Adegbite et al., 2013; Johanson and Ostergren, 2010; Przeworski, 2004). The existing literature is inclusive regarding the role of institutions. Some scholars argued that institutions matter (Adu-Amoah et al., 2008) while others argued that institutions do not matter at all (Przeworski, 2004; Wibbels, 2005). In addition, some scholars argued that political and social factors are pivotal to develop an effective CG system (Adu-Amoah et al., 2008; Arslan et al., 2019).

2.1. Contextual setting

In March 2002, Security and Exchange Commission of Pakistan (SECP) introduced the corporate governance code in Pakistan for the first time. However, SECP introduced a reform in 2012 called "Code of Corporate Governance (CCG) 2012" that provided the detailed guidelines and provisions regarding boards of directors, financial reporting, governance structure and responsibilities of all stakeholders. Literature provides the evidence that CG practices have several benefits for firms in developed and developing countries and support them in getting the higher and more sustainable growth rates. Additionally, CG practices also help in mounting the ability of capital markets to boost investors' confidence in the national economy of the country. Scholars also argued that CG practices provide protection to both small and large investors (Javid and Iqbal, 2008; Rwegasira, 2000) and encourage growth and increase investment rates. It has been a long time that Pakistan introduced the CG code and reform, but scholars found that CG compliance is not up to the mark and firms lack true CG compliance in Pakistan (Arslan and Abidin, 2019; Samza, 2016). In reform of CCG 2012, CG code has many mandatory provisions related to auditing, board structure and disclosure for listed companies but there are still some voluntary provisions (SECP CCG, 2012). In Pakistan, ownership concentration is high, thus these provisions challenge the discretionary power of state and families[1]. Therefore, these family businesses are not ready to perceive the CG code in true form and CG compliance is compromised.

Khan (2014) conducted a study among listed firms of Pakistan and found that tick box practice is quite common among Pakistan Stock Exchange (PSX) listed firms. He also documented that senior officer of SECP confirmed that CCG is not implemented in true sense as most of public listed firms are family owned in Pakistan. Scholars also found that family members are elected as executive and non-executive directors (Arslan and Roudaki, 2017). It is also very common to appoint family members or even children as intendent directors with few to fulfil the requirement of CCG (Arslan and Abidin, 2019). Khan (2014) further contended that "law in books" is not enough; it should be implemented to be considered as "law in action". Similarly, Samza (2016) found that many CG codes provisions are overlapped with Companies' Ordinance 1984 of Pakistan. She also argued that Pakistan Institute of Corporate Governance (PICG) and SECP should take appropriate steps in increasing the awareness about benefits of CG compliance.

In sum, it is argued that institutions matter in development of CG systems and their involvement depends on the extend of institutional sophistication. Nonetheless, the institutional sophistication may be affected by the conditionalities which are intrinsic in a specific system. The impacts of these conditions depend on economic development of a particular country. Therefore, these conditions are staggered by the stoutness of existing institutions in developed countries while differs in developing economies and affects the CG models adopted in developing countries. Hence, it becomes critical to develop the effective CG mechanisms in these developing economies because these economies contribute to global supply chain and existence of weak CG system could have global implications. Drawing substantially on agency and institutional theories, this study, therefore, explicitly contributes to CG literature in developing countries (Douglass, 1990; Scott, 2013; Zucker, 1987) especially in Pakistan.

3. Methodology

This section discusses qualitative method used to explore the institutional determinants of good CG practices in Pakistan.

In recent years, qualitative research became common among social science researchers (Scott and Garner, 2013) to study the human behaviour (Lichtman, 2013) and it discovers in-depth social reality (Collis and Hussey, 2013). Consequently, qualitative research is holistic approach, generates knowledge from various viewpoints (Scott and Garner, 2013) and aims to provide more robust results (Creswell and Clark, 2011). In similar vein, Zattoni et al. (2013) argued that mixed findings in CG studies has served as a motivation for scholars to employ qualitative method. Therefore, in this case, a qualitative study can help in exploring the institutional determinants of good CG practices in Pakistan. The next section expounds the validity and reliability of qualitative research.

3.1. Validity and reliability of qualitative research

Researchers argued that validity and reliability are pivotal in qualitative research (Bryman and Bell, 2015) and profoundly rely on data collection and analysis process (Hesse-Biber and Leavy, 2011). Consequently, there are no tests that can determine the reliability and validity of qualitative research. Reliability refers to prospect if replicating the same results in repetitive research (Collis and Hussey, 2013) while validity means interpretation of results to reflect the phenomenon. Silverman (2015) suggested three ways to enhance reliability of interviews i.e. development of interview guide, accurate recording and transcription to make more reliable findings and inter-coding reliability. In similar vein, validity of interviews is determined thorough selection and willingness of respondents to provide knowledgeable data (Louise Barriball and While, 1994). Hence, triangulation, member checking and researcher biasness are applied in addressing the question and verifying the results.

3.2. Interviews

Researchers emphasized on the importance and use of interviews within qualitative research (Bryman and Bell, 2015). Interview is an research method to obtain data through perceptions and life experiences of individuals (Scott and Garner, 2013) and it provides flexibility in data collection and analysis (Bryman and Bell, 2015). There are different forms of interviews i.e. structured interviews, semi structured interviews and unstructured interviews (Silverman, 2015). The structured interviews depend on particular answers (Scott and Garner, 2013) and frequently use in quantitative research while semi structured interviews provide liberty to diversify and ask question according to given answers (Haniffa and Hudaib, 2006). Semi structured interviews are generally in depth and informal (Robson, 2002), therefore, acknowledging the researcher to explore other areas of interests. This study followed the interview protocol and guide to conduct the semi -structured interview to ensure validity and reliability.

Researchers argued that quality of findings depend on quality of data (Saunders, 2011) and it is critical to develop a criteria for the selection of interviewees. This study employed purposive sampling technique and only those respondents were considered who had required experience of corporate governance in Pakistan to obtain informed opinions (see Bailey and Peck, 2013). In line with other studies, this study carefully recruited interviewees and focused on quality of data rather than on number of interviewees (see Haniffa and Hudaib, 2006). Consequently, this enhanced the reliability of the data. After identifying the targeted respondents, the researcher invited them to participate in this study through email and/or telephonic invitations and provided them research information sheet, detailing about objectives of study, time required for interview and process to ensure their confidentiality and anonymity. These procedures increase creditability and encourage respondents to participate in the study (Bailey and Peck, 2013).

3.2.1. Interview protocol

Table 1 reveals the interview protocol of this study. The interviews lasted from 28 to 43 min with different participants such as CEOs, Directors, CG consultants and experts. In total, eight semi structured interviews were conducted. All the interviews were recorded except for two where respondents didn't agree to record the interview. After getting approval from Human Ethics Committee (HEC) at Lincoln University,

Table 1. Interview protocol.

Interview type	Semi-structured Interviews
Duration of interview	28–43 min
Level of interviewees	CEOs/Directors/CG Consultants and Experts
No. of interviews	Eight
Purpose and style	Information extraction and exploration
Interview place	Online or office
Language	English
Confidentiality	High
Morality and Ethics	Approval from Lincoln University Human Ethics Committee. Written consent was taken from the participants
Recording responses	At the start of interview, researcher sought the permission from respondents about recording the interview and recording was started after their approval.
Information exchange	Detailed information was provided about the project and process. Preliminary questions were addressed in advance.
Question Types	Open ended

[1] Arslan, M. (2019). *Corporate governance, compliance and performance nexus* (Doctoral dissertation, Lincoln University).

written permission (consent form) was taken from participants before starting the interview.

Interview guide is useful in discussion and extraction of information from the participants (Smith, 2015) while Bryman and Bell (2015) recommended that interview guide should be a brief list of questions that address the research problem. Following the guidelines, an interview guide was prepared to conduct the interviews, consisting brief list of questions, which address the research problem. The initial contacts were made through email invitation, followed up email and or/telephone. The interviews were conducted face to face and/or over skype, following the same interview protocol to ensure consistency among interviewees, however, different probes and prompts were used to gather as much as possible in-depth information from each interviewee. In addition to audio recording of interviews, notes were taken for all the interviews as back up.

In qualitative research, it is pivotal to consider ethical issues (Bryman and Bell, 2015) in three stages i.e. before, during the interview and after the data collection (Saunders, 2011). As suggested by Bryman and Bell (2015), this study followed the ethical practices and interviewees was informed about purpose, nature of research and their rights for withdrawal from the interview. In addition, the research ethics were considered during data analysis and reporting of findings by keeping the confidentiality of interviewees.

3.3. Analysis of semi structured interviews

All the semi structured interviews were transcribed verbatim into Microsoft word. Only the researchers involved in the transcription process in order to achieve highest level of familiarity with data before commencing analysis. Each respondent was assigned a pseudonym to hide their identity. Following Table 2 presents the summary of all the interviews:

The transcribed data was transferred to qualitative software package called NVivo for analysis. The use of software reduces the chances of making mistakes, analyse the data more effectively and avoid missing key concepts (Quinlan, 2011). NVivo data analysis involved summarizing data into different categories based on concepts and themes (Neuman and Robson, 2014; Sekaran and Bougie, 2016). This study employed three types of coding i.e. open coding, axial coding and selective coding.

In open coding, 131 open codes were generated while the primary codes were revised by grouping similar codes with the same ideas in order to produce axial codes. This coding resulted in 11 key codes and 41 sub-codes/themes. The researcher then scanned all generated codes and sub-codes to develop the final core codes. This final coding stage resulted in eight core codes (themes) aligned with the research question (Figure 1).

4. Findings and discussion

This section presents the findings of semi-structured interviews and expounds the themes which were identified by the participants. Eight themes emerged as the result of the semi-structured interviews. These themes i.e. (1) Auditing, (2) Political, (3) Legal, (4) Board, (5) Shareholders awareness, (6) Voting, (7) Culture and (8) Values were discussed by the participants. These themes are the institutional determinants of good CG practices in Pakistan.

4.1. Auditing

Auditing is self-regulatory element of CG and creates appropriate links of information, governance and incentives between investors and managers. It encompasses a broad group of intermediaries i.e. financial analysts, investors, ratings agencies, corporate boards (internal governance agents), and auditors (internal and external) (Healy and Palepu, 2003). Researchers documented the importance of auditing for improving CG practices. Preston et al. (1995) argued that the audit process is profoundly convoluted in the development of professional codes of ethics and rules on independence through formal procedural knowledge. In addition, Grabosky (1995) documented that reputational intermediaries work as gatekeepers by assuring the quality information and compliance with regulations. However, these intermediaries may have their own set of incentives and problems, thus, they are regulated by different state agencies and certified professional bodies. As compared to board structure and shareholder activism, auditing issues have received less attention in corporate governance debate because these are considered straightforward and technical in nature. In Pakistan, the auditing process is not effective and auditors lack independence (Samza, 2016). The analysis of qualitative data reveals that auditors have links with management and owners of firms and sign off practice is quite common. However, researchers argued that purpose of audits is to identify fraud, and auditors provide a judgement on the financial statements with reference to concept of fairness or 'true and fair' view (Humphrey and Moizer, 1990; Humphrey et al., 1992). In Pakistan, the situation is contradictory and auditing process lacks transparency and fairness because auditors are not independent and audit committees are mostly comprised of family members or relatives who are serving as independent directors (Khan, 2014). The following sections expound evidence on three categories (1) auditor independence, (2) audit committee and (3) risk management that are classified together as auditing.

4.1.1. Auditor independence

Auditor effectiveness fulcrums on the capability to perform independently as a gatekeeper. The auditor independence is pivotal for ensuring transparency and disclosure. However, analysis of qualitative data reveals that auditor's independence is compromised in listed firms of Pakistan. Similarly, DeFond et al. (2002) argued that auditors behave with relatively greater independence towards those clients who pays higher audit fees. Additionally, Ashbaugh et al. (2003) found no relationship between discretionary accruals and audit fees after controlling firm performance. These findings support the argument that market based incentives such as litigation cost and reputational loss (Coffee, 2003) override the benefits received by auditors due to compromising their independence (Reynolds and Francis, 2000). A participant informed that auditors do not verify the statements and there is sign off practice.

Table 2. Summary of interviewees.

Pseudonym	Experience	Position	Interview Status
Participant -I	20 years	Director	Recorded and notes were taken
Participant -II	11 years	Consultant- Corporate Governance	Recorded and notes were taken
Participant -III	9 years	Director	Recorded and notes were taken
Participant -IV	8 years	Director	Recorded and notes were taken
Participant -V	17 years	Director	Recorded and notes were taken
Participant -VI	14 years	Head of CG Compliance	Recorded and notes were taken
Participant -VII	9 years	Legal Consultant-Corporate Governance	Not recorded- only notes were taken
Participant -VIII	16 years	Senior Manager – Corporate Governance	Not recorded- only notes were taken

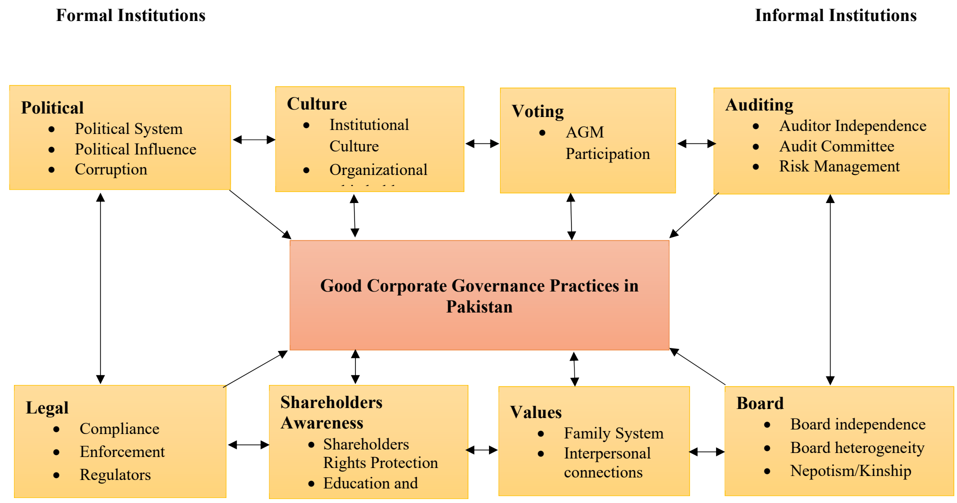

Figure 1. Institutional determinants of good corporate governance practices in Pakistan.

This practice can be due lack of expertise or high compensation. One participant commented that:

"One is a general statement of compliance which gets put with the audited accounts and that the external auditor has to sign off. Having said that I have questioned many times on various boards whether the external auditor actually verifies the statement of compliance and they do not (participant – II)"

Researchers also argued that large audit and consulting fees influence the auditor's independence (Johnson et al., 2002), consequently market liquidity and disclosure quality of firm are also compromised (Ascioglu et al., 2005). It is evident that auditor independence is very pivotal for good corporate governance practices, transparency and fairness in Pakistan, however, the current CG practices are different. A participant also mentioned that efficacy of internal auditing function depends on independence of auditor. One participant highlighted that:

"having his own internal systems of control and that is where the internal auditor… internal auditing function is important and depending very much on how efficient, effective, independent the internal auditor function is within the company the compliance can vary from company to company so (participant – II)"

Hence, it can be argued that nexus between auditor independence and their fees may depend on CG context of the client firms themselves. The firms lack transparency, fairness and disclosure due to lack of independence of auditors in Pakistan. The auditors are not fulfilling their duties in true spirit and quality of information is compromised. Moreover, the family dominated firms may have close links with auditing firms and pay them higher fees that lead towards poor disclosure quality. These findings are supported from existing studies of Larcker and Richardson (2003) and Causey (2008).

4.1.2. Audit committee

Most of listed firms around the globe has pursued to tackle the problem of auditor independence mostly by having active audit committee within the BoDs and supervision of external auditors. Audit committee is responsible to assure independency of external auditors from CEO and firm, in general, and closed supervision by independent outside directors. In addition, researchers and governmental bodies have aired distrusts about effectiveness of audit committee and frauds such as Enron have advanced vindicated those doubts. The analysis of qualitative data reveals that existence of auditing committee is necessary to protect shareholders interests especially minority shareholders. Moreover, data analysis also highlighted that audit committee should be comprised of independent directors. One participant highlighted the importance of audit committee in listed firms of Pakistan:

"at a minimum the board audit committee is essential and that should primarily be composed of independent directors if there is one or two at least it should be chaired by an independent director so that there is some level of independent discourse vis a vis the financials (Participant-II)"

Serious issues emerged at Enron about independence of committee members despite the presence of the audit committee. Gillan and Martin (2002) found strong financial ties among directors at Enron, consequently, directors took individual benefits in form of consultancy fees, group donations and transaction with entities in which directors played a key role. In addition, researchers documented that the level of interaction between the audit committee and auditors is highly variable (DeZoort, 1998), hence, it is pivotal to know how audit committees operate and fulfill their responsibilities (Kalbers and Fogarty, 1998). Reinstein and Weirich (1996) found that selection and retention of audit firms were influenced by relationships between the audit firms and the companies of the committee members. Similar type of situation exists in Pakistan. The analysis of qualitative data reveals that audit committees are usually comprised of non-independent directors or family members and decisions are made in the best interest of controlling family. One participant highlighted that:

"the board so that what happens sometimes in family dominated companies is that they staff these sub committees with people who they are comfortable with including primarily the audit committee with non-executive or family members and most of their decisions vis a vis the budget, vis a vis other issue (Participant-II)"

The audit committees do not have expertise and power to confront management in listed firms of Pakistan and not play effective role in improving the quality of financial reports. It is important to have audit committee with independent directors with relevant experience and literacy.

4.1.3. Risk management

Researchers documented that BoDs are responsible for managing internal control and risks (Turnbull, 1999). Despite the increasing interest in studying risk management and internal control, limited evidence is found to expound nexus between internal control and good corporate governance practices (Solomon et al., 2000). BoDs must ensure that all types of risks are considered and fully entrenched in firm's culture. The analysis of qualitative data reveals that risk should be managed by BoDs in listed firms of Pakistan that will help in improving CG practices. The risk is not limited to financial and regulatory/legal compliance risks, but also strategic, ethical and operational risk (Waite, 2001). Ethical risks include failure to have ethical standards in doing business and contracts are obtained through personal relations and unethical means (Cooke, 1991). Consequently, this could also cross over into financial risks through accounting irregularities and vulnerability to fraud. The participant also mentioned that BoDs should emphasize on internal control and risk management:

"at least good number of independent directors, sufficient independence, diversity of skills because for me corporate governance board's role is really the center piece of corporate governance and then of course better oversight in terms of having internal controls and risk management under the board's oversight I think that can contribute tremendously towards improving the overall corporate governance framework in companies in Pakistan (Participant – III)"

In nutshell, auditing is not reliable in Pakistan and auditors' independence is questioned. However, as per agency theory, principals hire independent external experts (auditors) due to lack of trust on agents and reliability of information. Agents (directors or auditors) may trustworthy and there is no need to increase the regulatory mechanism, however, simple agency model suggests that agents are untrustworthy. The independence of auditors has great importance in delivering the high-quality disclosure, however, auditors work closely with BoDs of firms that may question the independence of auditors and demand for strict regulations and control.

4.2. Political

Researchers argued that institutional environment of developing countries not only differs from developed countries but each developing country has its own institutional conditions that vary from other developing countries (Singh and Newberry, 2008). However, some researchers also emphasized the similarities between developing countries in terms of politics, corruption, ownership structure, legal origin, size of capital markets and investor protection. Consequently, the politics can influence the culture, profitability, ownership, operations and firm size (Roe, 2003). Same situation is prevailing in listed firms of Pakistan. Being a developing country, Pakistan has high level of political risks and political interference is common in daily business life. Moreover, the political situation is unstable in the country and corruption is high. The capital markets of developing countries lack necessary resources to support entrepreneurs (Domadenik et al., 2014) and after following strict regulations (Desai and Olofsgård, 2011), business owners still face difficulties in getting access to resources such as land, services and bank finance. Consequently, politicians take advantage of this and show interest in corporate organizations to take bribery and benefits (Wu, 2005).

Data analysis reveals that firms use political contacts to take advantage and expedite the process of acquiring resources in Pakistan. Moreover, the appointments are made on political connections rather than merits, consequently, sometimes people at higher positions lack expertise and relevant knowledge. The following sections expound evidence on three categories (1) political system, (2) political influence and (3) corruption that are classified together as political.

4.2.1. Political system

The political system of a country can have implications for political system and ultimately corporate governance (Doidge et al., 2007). In similar vein, researchers documented that political system of a country is reflected by corporate governance (Adegbite et al., 2013) and political influence can manifest in business environment (Adegbite, 2012). The analysis of qualitative data reveals that corporate standards and performance are dependent on economy and economy is dependent on political stability. If political situation is unstable, it will have negative consequences on economic condition of country and on firms as well. One participant asserted that:

"On top of the issues I will say economic stability and political stability these are the macro level issues if they are persistent overall the performance of the company and the financial performance of the company as well as the corporate standards will definitely rise to a significant level. Uncertainty of politics and economics these are the barriers….. The market is dependent on economy and the economy is dependent on political stability so that's why we are on a downward spiral (Participant – IV)"

In Pakistan, the State Bank of Pakistan (SBP) has poor CG system, consequently, the financial sector is abused by politically influential elites (Khan and Bhatti, 2008). Nahavandi (2006) also documented that leader can influence their followers and their actions may be inconsistent with organization's objectives. Hence, this power inequality emasculates the ability of existing corporate mechanisms to meritoriously monitor behavior (Lessing, 2009). In similar vein, Saeed (2013) conducted a study in Pakistan to examine the effect of political connectedness on firm leverage and performance and found positive effect of political connectedness on firm leverage while negative effect on firm performance. He also documented that politically connected firms enjoy the benefits of preferential lending as compared to non-politically connected firms. It is evident from the semi-structured interviews that political issues are major concern in implementation of CG practices in Pakistan. Ali et al. (2017) also documented that politics and leadership have impact on corporate governance practices in Pakistan.

4.2.2. Political influence

Bushman et al. (2004) claim that private mechanisms for enforcement of contracts and relationship-based arrangements emerge in countries with weak law enforcement. The parties of contract develop informal ties with each other due to weak enforcement mechanisms and these informal ties act as an auxiliary for the strong enforcement of contracts. They further argued that, in return for bribes, political support and nepotism, politically powerful elites favor their acquaintances. The analysis of qualitative data also expounds the similar situation in listed firms of Pakistan. The analysis reveals that political appointments are made in listed firms of Pakistan which leads towards low transparency and disclosure. The analysis also reveals that SECP "that works as regulatory body of CG practices" is also under influence of politicians and unable to perform well. One participant also mentioned about political appointments on board at State Owned Enterprises (SEOs).

"Because of that which I have told you the chronic illness of state owned enterprises in Pakistan which is they appoint, they have political appointees on their board (Participant -I)"

Leuz and Oberholzer-Gee (2006) also argued that economic transactions are made on political and personal ties in weak law enforcement countries, hence, the political influence has an important role in shaping CG systems in those countries. Similarly, BoDs have political connections and CG practices do not exist in true letter spirit among listed firms of Pakistan. One participant also highlighted that:

"But sometimes SECP autonomy is compromised due to political interference and government line industries as you know. And because of this political interference SECP has been very bleak in ensuring corporate governance, enforcements in listed companies lease and because SECP is the main body which is responsible for ensuring corporate governance in public sector companies…… they [SECP] are monitoring the progress of the companies but their hands are tight, they cannot basically, they till the implication which additional directors and associate directors can't do in true letters spirit because of political influences through commissioner and through the chair (Participant -I)"

Similarly, researchers argued that it is easy to maintain political relationships in family firms through networking and kinship (Bertrand and Schoar, 2006) especially in developing countries, consequently, these politically influential people can affect the development and implementation of regulations and laws in developing countries (Berglöf and Von Thadden, 1999). Qualitative data analysis reveals that almost all firms have political influence and it has disastrous effects on company performance and CG practices. The participant stressed that politics should be separate from business to improve company governance. The participant informed that:

"Politics should be separated from the company's business, from the company's governance.....they are basically politically proof. They are prudent and politically proof and their corporate governance practices has never been the government stake..... This is the main chronic factor which is basically hurting Pakistan economy and hurting the performance of the company's in Pakistan.....But reality is political interference is so much. (Participant -I)"

In sum, Pakistani firms have great political influence that is affecting their day to day operations and CG practices. The regulatory authorities are unable to enforce due to political influence and political connectedness. The politics should be separated from firm's operations in order to promote CG practices.

4.2.3. Corruption

Corruption is biggest challenge for many developing countries including Pakistan[2]. Political connectedness is also linked to level of corruption within a country (Bertrand and Schoar, 2006; Faccio, 2006; Goldman et al., 2008). Similarly, researchers argued that political connectedness is more dominant in countries with weak legal systems and high level of corruption (Faccio and Parsley, 2009). Fisman (2001) documented that high level of corruption might imply existence of political connectedness and high political corruption in developing countries such as Pakistan, India, Bangladesh and China. The analysis of qualitative data reveals that corruption is high in Pakistan especially in corporate sector. The participant(s) stressed on introduction of anti-corruption reforms. They mentioned that firms hide information due to corruption and wrongdoing. One participant informed that:

"also another factor which is corruption, corruption is the cause of concern, the corruption is basically, anti-corruption movements are basically not implemented through in Pakistan… anti-corruption reforms should be retrospect, it should be implemented in all corporate governance and also stake holders and which are involved in for example State Bank of Pakistan, SECP… if you are hiding your reports (disclosure statement) that means there is corruption involved in it. (Participant -I)"

Researchers acknowledged that importance of politics in shaping the CG practices (Roe, 1991), mainly in complex environment of developing countries such as Pakistan. Indeed, in Pakistan, it is generally evident that top politicians hold majority stakes directly or indirectly in many firms, which give them opportunity to hire their favorite BoDs and management. Consequently, strangle the firm to fir in their political interests and in other situations use their political powers to benefit the firm. It is also not incomparable for MNCs to compromise their ethical standards in order to do business. Moreover, the country's CG practices, and system have been pierced with prevalent corruption. This brings to the fore need to understand the links between a country's institution and corporate governance.

4.3. Legal

Corporate governance principles are instigated using guidelines propagated by government and/or other regulatory bodies. The SECP have involved in issuing regulations to resolve CG issues in Pakistan. However, different issues have constrained the efficacy of CG regulations despite the government and regulatory bodies' intervention. The critical factors underlying this challenge remains the economic, legal and corporate environment of the country (Siddique, 2013). Similarly, It is considerably essential that an appropriate, efficient and reliable regulatory, legal and institutional framework should be established in order to ensure good corporate governance practices (OECD, 2004). In addition, the business community has identified different key barriers; (1) lack of resources (i.e. qualified workforce), (2) insufficient benefits of CG compliance; and (3) problems regarding disclosure of proprietary information to competitors (International Finance Corporation, 2007) in effective implementation of CG in Pakistan. The analysis of qualitative data reveals that firms are not complying the CG practices in true spirit rather they are doing tick box practice. One reason of this may be lack of resources. Moreover, the analysis shows that enforcement lack behind due to weak and lengthy process of judicial system. The analysis of qualitative data also reveals that regulators are not competent enough and not have enough power to exercise in order to improve CG practices. The following sections expound evidence on three categories (1) compliance, (2) enforcement and (3) regulators that are classified together as legal.

4.3.1. Compliance

Most of countries adopt the mechanisms of law to establish their CG system (La Porta et al. 2002) and poor compliance of these regulations can emasculate the accomplishment of CG objectives. Researchers documented poor compliance as a fundamental barrier to good CG practices in several emerging countries (Berglöf and Claessens, 2006; Okpara, 2011). Consequently, the CG codes fail to take into account local specificities (Aguilera and Jackson, 2003; Judge et al., 2008) and impaired the desire and motivation to comply the governance codes (Adegbite and Nakajima, 2012). Similarly, the analysis reveals that compliance lacks behind in listed firms of Pakistan due to less resources or lack of motivation. One participant informed that:

"I think compliance is what lacks behind and that is the difference between complying in letter and complying in spirit you can have a statement of compliance saying and do a box ticking exercise that we are in compliance with all the provisions but it's really not in spirit…. so I think compliance is far behind the written rules and regulations (participant – II)"

In similar vein, Hamid and Kozhich (2007) highlighted that, after the introduction of CG code in 2002, many firms delisted from Karachi Stock Exchange (KSE) due to increased cost to fulfill the requirements of CG code. Many firms perceive that appointment of qualified CG experts, publishing and printing of financial statements and CG disclosure are extra financial burdens on them.

Another participant highlighted that:

"You don't have enough resources to implement, to comply the corporate governance practices. May be we think that it will create, it will increase your cost (Participant – I)"

In Pakistan, ownership concentration is high and most of firms are owned and controlled by family members, hence, firms prefer not to comply with strict regulations intended at protecting the rights of minority shareholders (Khan, 2014). In similar vein, Adu-Amoah et al. (2008) documented that this raises the concerns regarding the application of corporate governance codes, in emerging countries, developed by western world. For instance, the CG compliance mechanisms in developed economies could have been persuaded by robustness of their institutional frameworks and replication of akin strategies in developing economies i.e. Pakistan might not generate same results due to weaknesses in institutional elements.

4.3.2. Enforcement

Researchers documented that enforcement is pivotal in creating good governance practices and an effective business environment, especially in developing country like Pakistan (Ashraf and Ghani, 2005; Berglöf and

[2] Pakistan ranked on 117 out of 180 most corrupted countries. The higher number indicates high corruption level. See https://www.transparency.org/country/PAK.

Claessens, 2006). Anwar (2006) argued that enforcement is main impediment to good corporate governance practices in Pakistan due to high levels of political corruption (Easterly, 2001). Similarly, researchers found that relationship -based arrangements emerge for enforcement in countries with weak law enforcement (Bushman et al., 2004). On the other hand, Inyang (2009) contended that enforcement is crucial to attain good corporate governance system. Pakistan has small concentrated capital market, characterized by weak law enforcement, and mostly, firms relay on banks for financing rather equity financing (Ashraf and Ghani, 2005). Therefore, Pakistan stock market is volatile and highly concentrated (Iqbal, 2008; Nawazish and Sara, 2012). In similar vein, Siddiqui (2010) expounded that developing countries have less developed and highly concentrated stock markets than the developed countries and Anglo-Saxon model is more suitable for countries with low concentration and developed markets. Despite this fact, many developing countries including Pakistan have adopted this model due to sway and guidance of international financial agencies. Pakistan also took guidance from Asian Development Bank (ADB) and World Bank (WB) for effective enforcement of CG system and development and training of staff (Javid and Iqbal, 2010a). Another reason regarding regulations related to failure of courts to address legal disagreements economically, stalely and fairly (Kessler, 2011). One participant highlighted this issue:

> *"We have very good laws everything is on paper I mean if you go through any legal penal structure, it is all there. Where we lack is implementation and here the judicial system… the role of the judicial system also comes into play because as you know if something goes to court in Pakistan you can just forget about it, it takes years and years for it to reach a conclusion if at all so the many loopholes that exist in the implementation of the laws is what has held us behind (Participant -II)"*

This highlights the presence of weak judicial system and powerful political class. Additionally, prevalent corrupt practices have infiltrated and boost this problem. Recently in Pakistan, politicians, public officers and corporate executives have been sentenced of governance-related infractions, however the sentences have been believed to be very compassionate. Another reason is lengthy process of proceedings in courts and expenses. Another participant highlighted that:

> *"So that was first hurdle but then the process itself it was court sanction process, so you had to petition to the high court of the province. I have looked at different rulings that were issued under those provisions and in most cases I would say because of the process… the nature of the process being very contentious laborious…. because courts are sometimes not as proficient or as efficient (participant – III)"*

Participants also discussed about duplication of regulations and role of regulators in enforcement and compliance of good governance practices in Pakistan. In addition, comply or explain nature of CG regulations has several supplementary challenges regarding enforcement[3]. Due to lack of enforcement, the objective of good corporate governance doesn't prevailed in Pakistan.

4.3.3. Regulators

It is noted that regulations are pivotal for entrenchment of sound CG system, but regulators are also most important because of their responsibility to ensure compliance of regulations. In Pakistan, it is recommended that poor compliance and weak enforcement are affected by unprofessional CG regulators. In Pakistan, SECP is the principal regulatory body for corporate sector. Researchers argued that good CG practices cannot be achieved in Pakistan as regulators lack necessary empowerment to compel for compliance (Khan, 2017). The analysis of qualitative data reveals that regulators lack resource to ensure implementation of CG practices. The analysis also reveals that regulators do not have enough power to exercise it. A participant also informed that:

> *"If we talk about SECP they have the limited resources they can't go beyond that. So the true letter cannot implemented but on the background of that limited resources that there is political influence. So, they can't go there, these is an implication with the regulator, if the regulator is not performing at all fully then how can you, how can you basically say that company will do it….. As I told you, what regulator is doing basically, legal implication is there and SECP is an autonomous body, okay, but sometimes SECP autonomy is compromised due to political interference and government line industries as you know…. there is no serious corporate governance in public sector entities, even though regulator is there, SECP is there, even though, even though the rules are there, even though ICAP is basically Institute of Chartered Accountants of Pakistan are basically voicing and influencing, influencing and that these rules should be implemented into letter spirit but they are not basically implemented so far. (participant -I)"*

Another participant informed that:

> *"The regulators do not have enough power. Sometimes, they do not do their job and active politically (Participant-VI)"*

Another participant highlighted that:

> *"So as far as regulations and laws are concerned I think it's pretty good it's the implementation which lacks and I think that's what you need to focus on because despite the best of laws and best of regulations they are unable to get them to be implemented in letter and spirit and that is what one (regulators) needs to investigate (participant -II)"*

One participant informed that:

> *"it means that there are limited like they [regulators] have limited resources, limited media regulatory system, like they can't make anything according to them, they [regulators] are limited by their rules and regulations (Participant -I)"*

It is evident that regulators are unable to perform better due to limited resources and political and other pressures. Effective regulations demand adequate authority and power to exercise and compel compliance and enforcement of regulations. Moreover, the financial conditions could also persuade regulators to involve in dodgy CG activities. Another issue is related to power of regulators to exoneration their responsibilities. This lack of authority and power is inconsistent with assumptions of public interest theory (Den Hertog, 2010), that requires ample information and execution power to endorse public interest. Therefore, in developing countries like Pakistan, regulators not only suffer from lack of necessary execution power but also have access to limited information constrained by weak political and social institutions. Consequently, it restricts their ability to make informed decision and quality is compromised.

4.4. Board

CG research that investigates the effect of board composition on critical decisions has primarily adopted an agency theory rationale. As per SECP CCG 2012, BoDs are responsible for ensuring effective CG practices among PSX listed firms. Effective board not only develops and promotes collective vision of company's purpose but also the values, behavior and culture to conduct business (Council, 2009). Thus, BoDs are responsible for adoption of control mechanisms (like selection, evaluation, monitoring) that align the interests of managers and owners. BoDs are described as apex of internal control system (Jensen, 1993) and their monitoring has become pivotal in corporate governance research. According to SECP CCG, BoDs are required to take training to improve its effectiveness (SECP CCG, 2012). Researchers also documented that BoDs help organizations in establishing the nexus with external environment.

[3] SECP introduced CG code in 2002 with comply or explain and made it mandatory to comply most of CG code provisions in 2012 reform, however, there are still voluntary provisions.

As per resource dependent theory, organizations are depended upon resources in external environment for their survival (Pfeffer, 1972) and BoDs act as instrument to deal with external dependencies (Hillman and Dalziel, 2003). In addition, BoDs help to secure valuable resources and information and offer access to crucial constituents (Hillman et al., 2000). Similarly, Patel and Xavier (2005) contended that in developing countries, it is essential to have effective system of checks and balances on management and board behaviors in order to achieve good corporate governance system. The analysis of qualitative data reveals that BoDs should be independent to protect minority shareholders and make independent decision. However, the analysis also reveals that BoDs lack independence among listed firms of Pakistan. Moreover, there is also lack of board heterogeneity and nepotism/kinship exists due to high ownership concentration. The family members are appointed as BoDs and in some cases, entire board is composed of family members that ultimately leads towards expropriation of minority shareholders. The following sections expound evidence on three categories (1) board independence, (2) board heterogeneity and (3) nepotism/kinship that are classified together as the board.

4.4.1. Board independence

The board independence is supported in agency theory which adopts inadequacies that arise from separation of ownership and control (Fama and Jensen, 1983; Jensen and Meckling, 1976).

According to agency theory, BoDs are responsible for monitoring, rectifying and evaluate managers performance on behalf of shareholders (Lynall et al., 2003). A board, composed of independent directors, provides effective oversight of the firm's executive directors and CEO. A participant also highlighted that:

"Definitely board independence not only helps ensure management of conflict of interest but also ensures that the minority shareholders are also protected in terms of their rights and their assets and their investment so the agenda that are taken by the board are mainly focused towards the minority shareholders… the protection of minority shareholders (Participant -IV)"

An extensive literature has investigated the nexus between the composition of the BoDs and diverse proxies for corporate performance. Researchers documented that board independence has positive effect on the corporate governance rating (del Carmen Briano-Turrent and Rodríguez-Ariza, 2016). In similar vein, Ortas et al. (2017) found that the independence of a company's board positively influences corporate social performance. Ensuring board independence empowers BoDs to contribute substantially to the decision-making processes. However, the interviewees pointed out that selection and appointments of board members are extensively based on personal relations and political gains. Such situations may undermine the boards' independence and their ability to question or challenge the authority of the managing director or CEO. One participant pointed that:

"A board should be independent…. independence of the board is very important, if the board is not independent, they will not make independent decisions. They will, they will not do anything which is right for the company (participant -I)

Another participant mentioned that:

"There is no level of complete independence from each other so when somebody comes on to your board the high likelihood is even if they are an independent director there is a high likelihood that there is some connection to degrees of separation with other board members or management or somebody (Participant – II)

A participant also stressed on having independent board to increase effectiveness of corporate boards:

"I think one thing that has really made corporate boards more effective in listed companies is the idea of having board independence and board independent directors (Participant -III)"

Researchers contended that independent directors can arbitrate to protect the interests of all shareholders in case of disagreement of interests among controlling and outsider shareholders (Anderson et al., 2003). However, this is not the case in listed firms of Pakistan and firms lack independent directors in true sense[4]. Due to lack of independency, the interests and rights or minority shareholders are not protected.

4.4.2. Board heterogeneity

Board heterogeneity is referred as variation among board members in terms of gender, age, education, experience, managerial background, learning styles, cultural diversity and values (Coffey and Wang, 1998). Researchers argued that larger tenure of BoDs is linked with increased commitment to established procedures and practices (Pfeffer, 1972), better stringency (Boeker, 1992) and increased insulation towards new ideas (Hambrick, 1996). In similar vein, Filatotchev et al. (2007) argued that good CG is linked with high degrees of board diversity including social and human capital. Boards that are comprised of more diverse personals such as public affairs specialists, top management, financial representatives and lawyers, may be more effective in terms of bringing imperative experience, skills and expertise to provide advice and counseling. Board diversity, thus, benefits firms in several ways such as it allows a better understanding of the market, especially in a diverse market place; diversity is also linked with innovation and creativity; it enhances the effectiveness of corporate leadership; promotes more effective global networking and relationships; and enables more effective problem-solving (Nguyen and Faff, 2007). In addition, Odle (2007) argued that better governance structures can be achieved through encouraging greater board diversity. A participant also informed that:

"I am a big advocate for diversity at the board level, I have always spoken about age diversity I think gender diversity is also important…..When you have a greater diversity you bring in people from different socio economic backgrounds from different genders from different age structures you bring in people into a group who don't necessarily have that same level of comfort with each other and that is important for them to start voicing their differences of opinion because when there is difference of opinion there is a greater chance of a better discussion taking place and better decision making taking place (participant – II)"

The analysis of qualitative data reveals that diversity is very important in improving the CG practices in Pakistan. Because diversity helps in creation of some voicing and difference of opinions. Moreover, diversity in terms of age, gender, education and experience also help in improving the CG practices, however, the level of board diversity is unknown amongin listed firms of Pakistan.

4.4.3. Nepotism/kinship

Pakistan remains dominated by a value system based on family, kinship, lineage group, and occupational group. Kinship connections are fundamental in reinforcing and negotiating bureaucratic hurdles and play an imperative part in political, social and administrative organizations (Jalal, 1995). The analysis of qualitative data reveals that most of businesses are family owned in Pakistan and ownership concentration is high. Moreover, entire board is composed of family members due to high ownership concentration. This kinship creates a big problem in family owned businesses in Pakistan and family members believe that directorship of firm is their inherited right. One participant informed that:

"I think predominantly there is a lot of family ownership as you know it is dominated by large families but this has historically been the trend (Participant-II)"

[4] In most of firms, family members are appointed as independent non-executive directors. see (Khan, 2014).

Similarly, another participant mentioned high ownership concentration:

"So I think the level of ownership concentration is something that's a challenge dealing with it, making sure that despite having a majority eighty ninety sometimes more or ninety five, ninety percent shareholder owner (participant – III)

He also highlighted that:

"In Pakistan you have one big share owner who also has board representation almost entire board is composed of his family members and then they are also managing the business…..In Pakistan we have this high ownership concentration which means that I mean even among listed companies we have majority shareholders a family owner who owns sometimes as high as eighty or ninety percent of shareholding (Participant – III)"

In some firms, family members are hired at board and management levels, consequently, this kinship is a major problem in evaluating the board performance. In contrast, some firms hire individuals on the basis of competency, hence, level of disclosure differs across firms. One participant highlighted that:

"some companies which have a very independent internal auditor function which reports directly to the chairman of the board, others it's really a mouthpiece for the management and it's very easy to gauge that sitting at the board from the level and comprehensive audit reports that come to the board, whether these audit reports are just mere formalities or there is actually something of substance in those internal reports or not. So again it tends to vary but where the board and the management are professional and the internal auditor function is independent, there are greater chances of better effectiveness and compliance with corporate governance (Participant-II)"

It is evident that family businesses are perceived creating barriers of good CG practices in Pakistan. This argument is also supported by literature. Morck and Yeung (2003) argued that family business may not mitigate agency problems, especially, when family controls the group of firms. They further documented that it can increase the agency problems because managers will work for controlling family and ignore the shareholders in general. Similarly, Bartholomeusz and Tanewski (2006) found that family control creates agency costs rather negating it.

4.5. Shareholders awareness

Shareholder awareness is evolving, and it has been considered as one of the factors that affect CG. Researchers around the globe have agreed that CG is a benchmark of success for firms both in developed and developing economies. Nevertheless, effective implementation of CG is more needed in developing countries as compared to developed counterparts. The awareness about CG in Pakistan is not very old and initial CG code was implemented in 2002 and later reformed in 2012 by SECP with the collaboration of Institute of Chartered Accountants of Pakistan (ICAP) that is mandatory requirement for PSX listed firms. However, CG practices are in the developing phase due to immature capital markets of the country (Afza and Nazir, 2012). The analysis of qualitative data also reveals that there is lack of awareness about CG practices in Pakistan. One respondent highlighted that:

"as far as awareness is concerned it could be that our annual reports require a much higher level of disclosure now than they used to a decade and a half ago so maybe the kind of information that the shareholders are looking for is already provided to them via the many disclosures that the companies now are obliged to make so the awareness might already be there but it's not translating into their active voting (Participant – II)"

Some of family owned companies considered it costly to implement CG practice and repel CG compliance due to negative or wrong perceptions towards CG. Hence, researchers argued that the lack of awareness and knowledge amongst different stakeholders are responsible for non-compliance of CG practices (Samza, 2016). Another participant informed that:

"If you were to work in Pakistan as to raise more awareness on the business case so if you make it clear to those family owners majority shareholders that corporate governance is something that adds value to the bottom line of a company and it's not something that's there to dilute their control etc. (participant -III)"

The analysis of qualitative data reveals lack of awareness and knowledge among different stakeholders especially shareholders in the listed firms of Pakistan. Due to this reason, the CG compliance is lacking behind. Firms are not well aware of benefits of implementing CG practices, hence, they are reluctant to adopt it in true spirit. The shareholders and even employees' rights are protected in books of law but not in reality. There is need to introduce educational and training reforms to increase level of awareness among stakeholders[5]. The following sections expound evidence on two categories (1) shareholders rights protection and (2) education and training that are classified together as shareholders awareness.

4.5.1. Shareholders rights protection

Shareholders rights reveal the balance of power between managers and shareholders and provide the ability to voting stockholders to exercise control over firm assets, affect ownership changes to increase shareholder value and remove opportunistic or ineffective managers. As per the perspective of traditional theory, lower shareholders rights (weak external governance) create information asymmetry among managers and shareholders that provides opportunity and excessive incentives to the managers to reduce transparency and manage earnings to increase their bonuses. According to traditional theory, lower shareholders rights generate information asymmetry between managers and shareholders that leads to reduce transparency and increases managerial incentives in one hand (Jiang & Anandarajan, 2009). Greater shareholders rights, on the other hand, empowers shareholders to implement CG mechanisms to monitor managers more fastidiously. Researchers found that greater shareholders rights are linked with reduced agency risks (Shleifer and Vishny, 1997) and improve firm performance (Gompers et al., 2003). Hence, shareholders rights and protection are pivotal to increase transparency and firm value. However, shareholders especially minority shareholders are not aware of their rights in Pakistan. Due to lack of awareness and knowledge, their rights are paramount by majority shareholders. The analysis of qualitative data reveals that minority shareholders rights are protected in book of law but not in practice. Similarly, Javid and Iqbal (2010b) documented that family dominated boards are less able to protect minority shareholders rights in Pakistan. One participant also informed that:

"…the implementation lacks behind again and there it is more to do with the minority shareholders perhaps not having the wherewithal to understand all their rights and be able to understand how they can process getting their due share too but I mean as you know most of the companies are family owned and as such the majority shareholder's interests are sometimes paramount but the role of the independent directors is really to ensure that the decisions are made in line with the interests of all stakeholders but there is not much minority shareholder representation on the boards and hence their interests tend to suffer (Participant -II)"

According to Companies Ordinance, 1984[6], the minimum threshold for seeking a remedy from the Court against oppression and mismanagement requires that at 20% of the shareholders initiate a complaint. In addition, shareholders can apply to the SECP to appoint an inspector

[5] Arslan, M. (2020), "Mechanisms of Labour Exploitation: The Case of Pakistan", *International Journal of Law and Management,* Vol. just-accepted No. just-accepted , pp. 00 - 00. https://doi.org/10.1108/IJLMA-07-2018-0145

[6] Companies Ordinance, 1984 (XLVII of 1984).

to investigate the company's affairs if they hold at least 10% but less than 20% of share[7]. This threshold effectively is in the favor of companies with high ownership concentration. One participant also informed that:

"I were to refer to the company's ordinance 1984 which was before the companies act of 2017, we had some provisions around minority shareholders and abuse of minority… protection against abuse of minority shareholders but one of the consistent issues has been that to invoke those redressal mechanisms first it required having at least twenty percent ownership or shareholding to actually go to a court and seek redressal there. There is an allegation of abuse by the majority so that was a big hurdle and that actually meant that you effectively disenfranchise the minority shareholders because if you look at the ownership structure, I mean 20 percent was a long shot for I mean there was no way minority shareholders whether total minority shareholder are five percent or ten percent to actually have that majority to go. So that was first hurdle but then the process itself it was court sanction process, so you had to petition to the high court of the province (Participant-III)"

Moreover, no analogous provision exists for minority shareholders who represent less than 10%. They do not have standing to file a petition to the court or SECP for mismanagement and minority oppression[8]. Minority shareholders can enforce their claims in civil cases by suing for tortious loss in accordance with general laws, however, those cases take long time and hinders company's business[9].

4.5.2. Education and training

Educational background can be a pivotal determinant of corporate governance practices because better educated mangers are less likely to accept ambiguity and adopt innovative activities (Hambrick and Mason, 1984). Similarly, Nevertheless, Gray (1988) acknowledged education as an institutional consequence affecting disclosure practices and accounting values while Grace et al. (1995) argued that education level should be examined as an obscene measure for professional status. Researchers also argued that high level of education may increase demand for corporate accountability and political awareness (Wallace and Cooke, 1990). In Pakistan, the education and training are considered as important determinants of CG practices. One participant highlighted that:

"I think the most positive influence is professionalism at the board and professionalism at the management and along with that of course is the director's training so that people are aware of their role as directors and what they are supposed to be doing at the board level….the main thing director education and awareness is very important as I mentioned the case before I mean the directors didn't even know that they were being made directors of a company I mean there is a sea change since those days but there is a greater need to make directors aware that they are there as professionals and not as a badge of honor (Participant-II)"

Since the responsibility for preparing annual reports rests mostly with the principal officer of the company, the educational background of financial controller is as important as other directors (Ahmed and Nicholls, 1994). In addition, if BoDs have accounting and business educational background, they may disclose more information to show accountability, increase creditability of team and improve corporate image. Moreover, the high education of regulators also helps in increasing the compliance of CG. However, in Pakistan, most of regulators lack knowledge and expertise. One participant informed that:

"There has been a challenge in Pakistan under the 2012 code and before that the first line regulator was stock exchanges and stock exchanges have had I would say a weak capacity in terms of enforcing corporate governance first because of not having staff who have expertise and knowledge in that area but then also sometimes there were other considerations where I mean people also raised questions about having the stock exchanges being independent enough or the department within them being assertive enough to actually hold companies accountable because one of the sanctions that could have been invoked under the 2002 and 2012 code against a company that was not complying with the CG code had been delisting but then given that there are I mean stock exchanges wanted always to have more listing (Participant-III)"

It is perceived that foreign qualified individuals receive more robust exposure and professional training compared to their locally qualified counterparts and might be expected to disclose more information (Ahmed and Nicholls, 1994). One participant also informed that:

"In terms of societal factors… social factors I would maybe point out as I said earlier for family firms you are seeing the second and the third generation they are more open minded for the simple reason that these owners have a been a bit more exposed to these ideas because of sometimes having more opportunities to get themselves educated in different countries and different areas. I think they have been a positive influence so things a founder would not have imagined I think the second and the third generation they are more courageous to actually try to implement those in their companies…..Of course, as I said, there's a lot to be done but I have even met and known some companies family firms where you see the second and the third generation thinking more in terms of… simply because of their education their exposure to the world so that is probably one example I can give of how from one generation to another generation the attitudes towards accountability, towards corporate performance, and corporate governance has changed (Participant -III)"

It is argued that qualification and training alone are not solution to the problems faced in developing countries (Abayo and Roberts, 1993), firms are unlikely to provide high-quality information in the absence of demand and enforcement function. This is particularly the case in Pakistani firms with substantial family shareholdings.

4.6. Voting

Shareholder voting lies on the basis of broad range of corporate governance protections. The shareholders' rights to choose BoDs give them fundamental power over essential corporate decisions. In contrast, if management holds more voting power, it tends to negate the discipline of CG and the market for corporate control, especially in case of pyramidal business groups and multiple classes of common stock. Gompers et al. (2009) found that firm value increases as cash flow rights of insiders increase while firm value decreases if voting rights of insiders increase. In addition, researchers argued that if CEOs are involved in nomination process of BoDs, lower quality nominees emerge and CEOs tends to hire less independent outsiders and more gray outsiders with conflicts of interests (Shivdasani and Yermack, 1999). Other researchers have studied the general effects of voting restrictions on firm value and performance, often finding that firms perform worse in presence of voting restrictions (Gompers et al., 2003), staggered boards (Bebchuk and Cohen, 2005; Faleye, 2007) and dual class voting structures (Gompers et al., 2009).

The analysis of qualitative data reveals that mostly shareholders do not have voting rights in listed firms of Pakistan especially family ownership firms. The rights are assigned to majority shareholders and minority shareholders do not have right to vote. Moreover, there is lack of shareholders participation at AGMs that leads towards power quality reporting. The following section expounds evidence on one category (1) AGM participation that is classified as voting.

[7] Section 290, Companies Ordinance, 1984 (XLVII of 1984).

[8] In addition, section 290 of the Companies Ordinance, 1984, maintains that minority shareholders who represent less than ten percent do not have standing to file a petition to the court for mismanagement and minority oppression.

[9] Cases ordinarily adjudicated in four to six years at the Court of First Instance. Interlocutory appeals may take longer.

4.6.1. AGM participation

AGMs are considered as an instrument of corporate governance that provides shareholders especially minority shareholders access to board, put pressure on mangers and limits the possibility of their wealth expropriation (Strätling, 2003). Similarly, Cutajar (2015) argued that AGM is pivotal element of CG practices and it can be enhanced by shareholders participation, proper education about laws and regulations. In addition, AGM proceedings should be carried out in more effective, managed, interactive and engaged way (Cutajar, 2015). However, his study reveals that most of shareholders lack relevant education and shareholder activism (Cutajar, 2015). Proxy voting is often seen as an opportunity for directors to strengthen their hold over the general meeting (Monks and Minow, 2001) and also influence the agenda, timetable and conduct of AGMs (Turnbull, 2000) at company's expense. Similar situation exists in listed firms of Pakistan. Most of shareholders especially minority shareholders do not participate in AGMs and those who participate, they do not have any relevant knowledge and education. One participant highlighted that:

"See there are two ways one can gauge that one is of course voting by their phase which is buying or selling shares regarding… in line with their level of comfort or discomfort with how the companies manage and the second is how vocal they are at the annual general meetings now the little bit of experience I have attending AGMs of various companies… listed companies there is not much number one attendance and if the attendance is there really, the freebies that are distributed at the AGMs nobody is really interested in questioning the presentations or perhaps they don't know enough to question the presentations that are made by the management so there is not much vocal presence of shareholders at the AGMs. Regarding the buying and selling of shares again what I have seen with the way the prices have fared or the Pakistan Stock Exchange prior to that to the various Karachi Lahore stock exchanges is that the price changes don't seem to be based too much in fundamentals of course when the company is doing well I mean the price increases there but it seems to have increased over a period of time despite the variations… the slight variations in the company performance so as I said I often say that the price variations of the stock exchange have little to do with the fundamentals of the company. So if we gauge shareholder awareness by these two measures i.e. whether they are actually going in and out of shares actively no they are not and two whether they are playing a vocal part at the AGMs from my experience no they are not so there is not much shareholder participation which can act as a gauge for their awareness" (Participant -II)"

Dimitrov and Jain (2011) argued that these meetings provide an opportunity for shareholders to show their apprehensions with corporate performance, pressurizing managers to exhibit good results. One participant also informed that:

"…they must conduct AGM and everything must be described in the report that what you have done in corporate governance, who is director who is financial director for CFO, who is audit committee member, who is your auditor they need to say everything, they must get certified they must have the awareness section they must acknowledge and they must signed regarding the board of governors (Participant -V)"

Moreover, managers respond positively to questions and concerns of shareholders and try to influence them by positive news before AGMs. These meetings are very important for shareholders especially minority shareholders to exercise their rights and increase value to firm.

4.7. Culture

Douglass (1990) documented that institutions are formed by formal constraints and informal constraints. As per his theory, formal rules are created by polity whereas informal norms refer to heritage or culture. Researcher documented that cultural factors related to corporate governance system (Semenov, 2000) and companies need to understand it. Similarly, Evans (2008) documented organizational culture as significant determinant of companies' governance structures. Pakistan is considered as short-term culture country which focuses on present rather than future. Short-term cultures value diligence, ordering relationships by status, shame and thrift. Similarly, it is uncommon to plan for distant future and people often come late for meetings and appointments[10]. In addition, meeting may be cancelled on spur of the moment. Like many other developing countries, Pakistani culture can be categorized as collectivist (Kochanek, 1983), high power distance (Newberg, 2002), high uncertainty avoidance and moderately high masculinity. However, most of the Anglo-Saxon and Scandinavian countries are located toward the lower end of the power distance. Therefore, the implication of corporate governance may be different in Pakistan from Anglo-Saxon countries. It is important for researchers to continue to investigate the development of CG practices from the cultural perspective (Chan and Cheung, 2012). The analysis of qualitative data reveals that culture has great influence in corporate sector of Pakistan and daily life of people. Hence, it has effect on CG practices and behaviors of people. Firms are still in private ownership mindset and those are not willing to come out of this. Moreover, people are afraid to speak about any wrongdoing due to personal contacts or lack of protection. The following sections expound evidence on two categories (1) culture and (2) whistleblowers that are classified together as institutional culture.

4.7.1. Institutional culture

In the extended literature, researchers found that CG disclosure has been influenced by dominant culture (Haniffa and Cooke, 2002) especially in developing countries (Licht et al., 2005). Similarly, Oghojafor et al. (2012) conducted a study in Nigeria and found that national culture plays a pivotal role in efficacy of corporate governance. The analysis of qualitative data also reveals that culture has impact on corporate governance practices in Pakistan. One participant informed that:

"Number third is cultural aspects some of the companies are still in a private mindset ownership mindset they are not willing to come out of it so some cultural issues (participant -IV)"

Similarly, researchers argued that implication of culture upon CG practices is substantial especially in developing countries (Amaeshi et al., 2006). In addition, Licht et al. (2005) documented that impact of culture on CG practice varies across countries and dependent upon different factors. Another participant also commented that:

"There are some social factors which can have impact on corporate governance compliance like maybe culture religion or maybe the lack of experience or relevant education or these types of things can have some impact on the corporate governance compliance (participant-V)"

Similarly, Pakistan has a national culture due to the historical relations and spiritual attachment (Mughal, 2008) that impacted on corporate culture and obstructed the adoption of corporate governance.

4.7.2. Organizational whistle-blowers

Whistleblowing is seen as the process where employees are able to report any unethical incident or practice (Lewis, 2001). However, whistleblowing does not exist in most of organization and employees may experience retaliation in form of job loss and department demotion for doing so (Martin, 1999). In contrast, Dehn and Borrie (2001) documented that organizations should protect whistle-blowers. Sternberg (1996) also documented that whistleblowing policies were a proactive way to detect problem at early stage and help organizations in

[10] Centre for Intercultural Training, Working with a Pakistani Partner (Ottawa/Islamabad: CIDA, 1995), p. 12.

maximizing long term values for owners from an ethical perspective. One participant informed that:

"if I can just cite you an example of when I was working at [SECP] fifteen years ago the first show cause notice I issued to a company the directors who came in turned out to be the peons and the chauffeurs of the company whose names had been affixed to the names of the directors and their signatures taken without them even knowing that they were liable for the actions of the company of course the real shareholders had absconded but these poor directors who had done nothing but affixed their names had been left behind to face the consequences (Participant -II)"

Recently, Public Interest Disclosures Act (2017) is passed in Pakistan to protect whistleblowers and encourages employees to raise their voices about corruption and wrongdoing within departments and organizations. The BoDs should ensure the procedures to track down any whistle-blowing and take necessary actions to protect whistleblowers.

4.8. Values

Corporate values comprise an internal institutional force which monitors corporate behavior. The overall quality of the values of a corporation is a robust determinant of its corporate governance and leadership beyond the rigors of regulation. Wieland (2005) argued that practical implementation of corporate governance codes of conduct cannot be realized alone without moral values of company culture. In similar vein, Hart and Holmstrom (2002) argued that corporate values may be part of a vision of the company's future that includes future ownership and stakeholder. In addition, good governance comprises of other different values including responsibility, integrity, fairness, honesty, accountability and transparency. In sum, corporate governance problem is a moral challenge and can be resolved with ethical behavior of all corporate actors including managers, directors, auditors and regulators.

The analysis of qualitative data reveals that social values are high in Pakistan and people give preference to social norms and personal relationships. Family members are appointed as BoDs and on managerial positions due to existence of family systems. Moreover, the BoDs serve on each other's firms due to interpersonal connections. Consequently, quality of reporting is compromised. The analysis also reveals that education and training are helping in changing mindsets of people and improving CG practice. The following sections expound evidence on two categories (1) family systems and (2) interpersonal connections that are classified together as values.

4.8.1. Family systems

In the most of developing countries, family systems provide a set of interrelationships and social arrangements that allow people to live in harmony and pursue social life (Klomegah, 1997). Pakistan has extended family system in which family is responsible for the care and nurture of all children. Moreover, family is considered as primary source of identity, strong bond, responsibility and loyalty. Similarly, Kimani (2010) contended that the family defines moral and social norms and safeguards spiritual and material traditions and customs. Researchers documented that family core values influences the family business (Hendrick, 2000) and determines the behavior of family enterprise (Klein et al., 2005). The analysis of qualitative data reveals that family values are high in Pakistan and whole family owns and controls the business. One participant highlighted that:

"but I think it's something that really needs change of mindset on the part of majority shareholders and I think the more what I have seen over the years is that so most of these family firms when they go into second and third generation (Participant-III)"

Family systems form core values and fundamental principles which help in setting vision, mission and goal of family enterprise. Researchers found that family businesses differ in terms of family involvement in management (Sharma, 2004) and ownership (Astrachan et al., 2002). The analysis of qualitative data also presented similar findings. One participant informed that:

"family owners they often perceive corporate governance as equivalent to losing control as something that's essentially to do with complying with certain regulations and sometimes they don't perceive it as something that's really contributing to their overall decision making (Participant – III)"

Another participant highlighted that:

"I am not going to say that just because companies are more family owned there is less corporate governance there are some family owned businesses which are actually very conscious about compliance and good corporate governance practices. It just depends on how well educated they are (Participant -II)"

In addition, it is argued that family ownership can lead towards competitive advantage by reducing agency conflicts and maximizing value of firm because family wealth is directory related to the company. Therefore, it offers robust spurs to monitor managers and reduce the intrinsic problem of free-ride shareholder dispersion. Similarly, Anderson et al. (2003) argued that strong control mechanisms can increase the level of communication among stakeholders including family members, creditors that ultimately increases quality of financial reporting and reduces cost of debt. It is also imperative to cite that the family and the business are so entwined that sentiments are inevitable in a family business. Consequently, family firms are often counselled to hire outside board members for family businesses (Brockhaus, 2004) and to reduce resistance (Handler and Kram, 1988). One participant informed that:

"I have had the chance in my professional life to actually interview some of the family owners and in some cases I think I remember this family from a big family business in Karachi and the founder told me that he was skeptical in the start about having an independent director because it was a very closely held company with a family only board but now that person has been on board for one year they see value that that person brings so that I think is a most influential (Participant-III)"

The sustainability and adoption of good corporate governance practices are as important as the public company. Besides this, personal relationships toward the family agents may compromise the principal's ability to persuasively evaluate and monitor their performance.

4.8.2. Interpersonal connections

The interpersonal connections are very common in corporate sector of developing countries especially, Pakistan. In addition, directors (regardless of executive or non-executive) may sit on more than one board, called cross directorships. This practice is also common in both developed and developing countries (Roudaki and Bhuiyan, 2015). Some researchers argued that cross directorships are good for firms as directors can made comparison based on knowledge of other organizations (Dahya et al., 1996) while some researchers argued that cross directorship leads towards less independence and directors can make sympathetic decisions (Davis, 1993). Researcher also found negative effects of interlocking on firm performance (Roudaki et al., 2015). These arguments are based on resource dependence theory. Similarly, people know each other in corporate sector of Pakistan and independence of directors are compromised. One participant highlighted that:

"but I think we tend to take much more for granted in Pakistan given that even within the corporate sector you find everybody knows everybody right there is a certain comradery within the financial sector, within the banking sector, within the corporate sector because there is a certain class of participants who have been in the market for a long time and they are known to each other and hence there is no level of complete independence from each other so when somebody comes on to your board the high likelihood is

even if they are an independent director there is a high likelihood that there is some connection to degrees of separation with other board members or management or somebody. So that level of complete independence is not there I think more because of the social environment in which we operate compared to maybe some other countries where there is a certain level of… there is more distance between people serving in the same companies or serving on the same boards so I think that level does influence how people relate to each other, how the decision making function works in practice there is more of give and take because it's the norm I mean more cross directorships I mean somebody asks you to serve on their board there is a high likelihood that you will be asking them to serve on your board so there is a little bit of give and take in these situations. So what I am saying is that social norms perhaps bring a level of informality into our board structures which influences the implementation of corporate governance at some levels. (Participant -II)"

Lorsch and Young (1990) emphasized that interlocking of CEOs is desirable because of their creditability and experience as peers. Additionally, it provides opportunity to see how someone is doing the same thing you are doing. CEOs join other boards and thus form interlocking relationships specially to 'embed' what they are doing (Davis, 1993). One participant also informed that:

"as we discussed earlier in the conversation one of the socio economic factors in at play in Pakistan is the fewer degrees of separation between board members what ends happening is that they start operating as small country club boards where everybody knows everybody they all pat each other on the back and nobody really wants to take a stand against each other because they meet each other socially at the clubs or elsewhere (Participant-II)"

Several studies have documented that interlocking relationships and control structures are related to independence of directors and have pivotal implications of governance function. While some researchers argued that interlocking directors can offer insights based on personal experience and practical knowledge of other organization, hence, this experience and knowledge can serve as raw material for other organizations (Dahya et al., 1996). In sum, cross-directorships held by BoDs have significant insinuations for CG disclosure practice. In Pakistan, the cross directorship is common practice among BoDs, and they do not want to take strict actions against each other, hence, transparency and fairness are comprised. In addition, this gives opportunity to wrongdoings and ill practices.

5. Conclusion and recommendations

The purpose of this study was to explore the institutional determinants of good CG practices in Pakistan. Drawing on the lenses of institutional and agency theories, the study explores the key institutional (formal and informal) determinants of good corporate governance practices in Pakistan. The study finds eight institutional determinants of good CG practices i.e. auditing, political, legal, board, shareholders awareness, voting, culture, and values in Pakistan. The findings reveal that political influence and invulnerability are high among PSX listed firms that are affecting the true CG practices in Pakistan. The study also identifies that high level of corruption is also affecting CG practices among PSX listed firms both at firm and country level. It is essential to note that the insights regarding political invulnerability extend the scope of existing knowledge, considering that political invulnerability has not enticed the attention it deserves especially in the context of developing economies. The findings also reveal that true spirit of CG compliance is absent among PSX listed firms. Majority of firms are either unaware of potential benefits of good CG practices or don't have enough resources to comply with CG provisions. Additionally, the enforcement is weak or absent due to high level of corruption and political involvement in corporate sector. The regulatory measures must be institutionally based which focuses on the CG problems of corporate sector. The study also finds that regulators do not have required skills, expertise and power to enforce CG provision in true spirit which causes ineffectiveness of CG reforms. In similar vein, Okike (2007) stressed to enhance the efforts of enforcing CG compliance in developing countries, such as Pakistan, rather than focusing on reforms and introducing new regulations. It is also recommended by existing literature that corporate governance regulatory strategies must be systematically integrated with globally, regionally and locally accepted principles of good corporate governance practices to get more efficient and easily implementable regulatory and administrative governance mechanisms.

The findings also reveal that corporate culture has profound influence on good CG practices in Pakistan. It is revealed from discussions that Pakistani business society has negatively perceived the CG practices which influenced the CG compliance and quality. Additionally, it is hard to detect the CG problems at early stage due to lack of proper protection for organizational whistle-blowers. Pakistan is a collectivist society where family systems and interpersonal connections have great importance. This collectivist culture is affecting the CG practices in Pakistan because most of appointments are made on family and personal connections and hence, merit and transparency are compromised. The findings also reveal that shareholders lack awareness and potential benefits of CG practices. Moreover, the rights of minority shareholders are only protected in law, not in reality. AGMs lack active participation from shareholders. Consequently, the voicing is either weak or absent that affects the CG practices in Pakistan. The findings reveal that interlocking exist among BoDs whereas independence and diversity of BODs are absent among PSX listed firms. Mostly, the family members are appointed as independent non-executive directors. The study also finds that auditing function is not effective. Auditors are not independent and therefore, the authenticity and creditability of auditing function can be questioned. Similarly, audit committees are not composed of independent auditors which may compromised the transparency. The institutional determinants identified in this study have been considerably ignored in the CG code of Pakistan, hence, it can be contended that the principal code of CG in Pakistan is unfamiliar to the obligatory demands of the Pakistani business environment. Although institutions ignored in the corporate governance code may expound the weak CG system in the country, this challenge is better appreciated when the findings of studies of (Rwegasira, 2000) (Aguilera and Jackson, 2003) (Doidge et al., 2007), (Judge et al., 2008) are taken into consideration. The findings also highlight that Pakistan has all the necessary legal infrastructures and regulatory instruments to efficiently foster good corporate governance environment, however that enforcement and compliance related issues remain the key impediment.

The study has important implications and recommendations for policy makers and managers. The study helps in understanding the critical effects of institutional factors on corporate governance practices and recommends that these factors should be considered while developing CG codes and regulations. It is also recommended that code of corporate governance should be revised and aligned to the requisite demands of the Pakistani business environment. The corporate governance reforms should concentrate on minds and raise the awareness among stakeholders. The study also suggests that over-forceful regulatory strategy can be counterproductive, and firms may find other means to dodge legal provisions. Caution should be exercised in this regard especially in developing countries. No doubt, it is difficult and time consuming, however, it will be the way to effectively govern the firms especially in developing countries and implement effective corporate governance system.

Declarations

Author contribution statement

M. Arslan: Conceived and designed the experiments; Performed the experiments; Analyzed and interpreted the data; Contributed reagents, materials, analysis tools or data; Wrote the paper.

A. Alqatan: Contributed reagents, materials, analysis tools or data; Wrote the paper.

Funding statement

This research did not receive any specific grant from funding agencies in the public, commercial, or not-for-profit sectors.

Competing interest statement

The authors declare no conflict of interest.

Additional information

No additional information is available for this paper.

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