

Corporate Governance Reforms and Market Confidence in Pakistan

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ABSTRACT

The reformation of company governance is typically recounted as one of the number one gear of improving economic balance and regaining investor self assurance in rising markets. In Pakistan, the reasons of low capital marketplace credibility withinside the beyond have been possession concentration, terrible disclosure practices and regulatory inefficiencies. These had been answered to with the aid of using the Securities and Exchange Commission of Pakistan via way of means of introducing complete reforms thru the Code of Corporate Governance and revising it drastically in 2002, 2012, and 2017 to enhance the independence of boards, transparency, and safety of minority shareholders. These reforms had commonly been congruent to the standards of worldwide governance advanced with the aid of using the Organisation of Economic Co-operation and Development which imply the willingness of Pakistan to decorate the exceptional of establishments and regulatory observance. Based at the employer idea and the stakeholder concept, this paper will study the effect of governance reforms at the self assurance withinside the marketplace thru the minimization of records asymmetry and elevated responsibility levels. The outcomes suggest that right enforcement of regulations, higher disclosure provisions, and higher board designs play a primary position in growing investor self assurance and the overall overall performance of the marketplace in Pakistan.

Keywords: Market Confidence, Corporate Governance, Investor Protection, Regulatory Reforms, Pakistan Stock Exchange, Transparency, SECP.

INTRODUCTION

The problem of company governance has been one of the principal topics of the dialogue of monetary balance, safety of traders, and lengthy-time period monetary development. It is used to explain the machine of rules, members of the family and techniques wherein strength is granted and controlled thru companies (Shleifer and Vishny, 1997). The presence of right governance structures is in particular critical withinside the case of rising economies in which institutional inefficiencies, focused styles of ownership, and laxity of law can smash investor self assurance. In that regard, reforms to beautify the governance systems aren't simplest compliance equipment however additionally strategic to fix the marketplace self assurance and convey in home and overseas investments.

In Pakistan, company governance has been evolved in near relation with regulatory efforts via way of means of the Pakistani Securities and Exchange Commission. The Code of Corporate Governance that

turned into brought withinside the 12 months 2002 turned into an crucial milestone in harmonizing the company practices with global benchmarking. The 2012 and 2017 revisions in addition highlighted the independence of the board, effectiveness of the audit committee, gender diversity, advanced monetary reporting, and safeguarding of the minority shareholders. The international first-class practices guided those reforms, in particular the governance concepts cautioned with the aid of using the Organisation for Economic Co-Operation and Development (OECD, 2015).

Agency idea has fashioned the theoretical history of the company governance reforms because it identifies the battle of hobby among the managers (agents) and shareholders (principals) (Jensen and Meckling, 1976). Without right tracking device, the managers can enhance their non-public hobbies on the value of the shareholders inflicting inefficiencies and erosion of investor self belief. Enhanced governance mechanisms like impartial boards, open reporting mechanisms and well-advanced inner controls are geared toward lowering such conflicts and Information asymmetry is decreased as well. Moreover, the stakeholder concept broadens this approach, which highlights the function of agencies to a much wider target target market of stakeholders, as a result improving moral conduct and fee technology withinside the lengthy time period.

Confidence withinside the marketplace however is a trademark of the accept as true with which buyers have at the integrity, transparency and balance of the monetary device. Traditionally, in Pakistan, instances of company scandals, lax enforcement and financial instability have affected the perceptions of buyers. Nevertheless, the higher stage of governance and the law oversight has slowly helped in growing the institutional credibility and engagement withinside the Pakistan Stock Exchange. According to empirical findings, a not unusualplace characteristic is that the ones international locations that enact significant governance reforms have inventory marketplace performance, inflows of overseas direct investment, and improved investor safety (La Porta et al., 1998).

Thus, the evaluation of the relationship among the reforms withinside the region of company governance and the marketplace self assurance in Pakistan is a topical and essential one. The interpretation of the way regulatory reforms may be transformed into higher investor perceptions and marketplace balance could have a few treasured classes to policymakers, regulators and company executives suffering to create a sturdy and dependable monetary machine.

LITERATURE REVIEW

Corporate governance has visible a variety of studies as a device of decreasing corporation problems, growing transparency, and instilling investor self assurance in advanced and rising economies (Shleifer and Vishny, 1997; Jensen and Meckling, 1976). The employer concept is primarily based totally on the belief that the elimination of possession and manipulate in groups can create control practices that don't always agree to the hobby of shareholders until governance structures can form the incentives of managers to make certain their movements cope with the pastimes of shareholders (Fama and Jensen, 1983). The stakeholder concept moreover broadens the governance sphere because it underscores the responsibilities to wider institution of constituencies including employees, lenders and groups withinside the technique growing social legitimacy and minimizing statistics asymmetry (Freeman, 1984; Donaldson and Preston, 1995).

The wellknown proof of the empirical research has indicated that there's a dating among true governance systems and excellent economic reporting practices, low profits control, and excessive marketplace self assurance (Gomers, Ishii and Metrick, 2003; Black, Jang and Kim, 2006). On the relationship among criminal infrastructures and marketplace overall performance, La Porta et al. (1998) posit that sturdy investor safety legal guidelines are related to deeper and extra liquid capital markets. In the rising markets, governance reforms generally tend to create now no longer handiest massive modifications withinside the shareholder safety however additionally a extensive extrade in shareholder valuation (Claessens and Yurtoglu, 2013). Nevertheless, it could be visible that governance efficacy relies upon at the enforcement faces and the institutional excellence (Khanna and Palepu, 2000; Laeven and Levine, 2009).

The take a look at of company governance has end up a warm subject matter withinside the Pakistani context due to the historic trouble of low transparency and excessive attention along the dearth of rigorous enforcement of the regulations (Nawaz and Haniffa, 2015; Javid and Iqbal, 2008). The preliminary studies that become achieved indicated that possession attention with own circle of relatives and state-associated companies tended to bring about the tunneling of assets and expropriation of minority shareholders, which decreased investor self assurance (Khan, Lu and Packer, 2008; Sheikh and Wang, 2011). One of the important milestones changed into the advent of the Code of Corporate Governance with the aid of using the Securities and Exchange Commission of Pakistan (SECP) in 2002, which become intended to institutionalize the board independence, enhance the disclosure practices and growth duty (SECP, 2002; Shabir, 2009).

The code changed into later revised in 2012 and 2017 to alter the governance shape in Pakistan to be in keeping with the worldwide requirements which includes provision of audit committees, gender range, chance control, and higher monetary reporting (SECP, 2012; SECP, 2017). Such reforms have been the mirrored image of the worldwide perspectives, particularly the OECD Principles of Corporate Governance that promotes transparency, fairness, and responsibility as the important thing concepts of the marketplace self assurance (OECD, 2015). Comparative governance reform analyses withinside the rising markets additionally display the relevance of changing their home regulatory frameworks to worldwide pleasant practices to stimulate investor self assurance and beautify capital flows (Bebchuk & Kastiel, 2017; Aguilera and Cuervo-Cazurra, 2009).

An gathering quantity of literature has explored the outcomes of governance reforms at the overall performance of companies and the behaviour of a marketplace in Pakistan. Hussain and Al-Mamun (2018) hooked up that the groups with more disclosure in their adherence to the codes of governance had a higher impact at the inventory returns and an advanced view of the buyers. Likewise, Ahmed and Hamid (2019) confirmed that the effectiveness of impartial administrators and audit committee had a high-quality dating with the high-satisfactory of profits and charge volatility withinside the Pakistan Stock Exchange (PSX). The findings are in step with the relaxation of the arena in which sturdy governance minimizes facts asymmetry and will increase the investor self assurance (Bushman and Smith, 2001; Leuz and Wysocki, 2016).

Nevertheless, some of research warn that presence of governance codes does now no longer result in higher marketplace practices until the codes are strongly enforced (Aguilera et al., 2008). Regulatory potential limitations, put off in litigation, and inconsistency in compliance amongst corporations had been

diagnosed as long-status weaknesses withinside the enforcement in Pakistan (Nawaz, 2017; Tariq and Abbas, 2019). According to Nawaz and Haniffa (2015), while there's uncertainty over the enforcement of the policies and regulations, it deteriorates the performance of the guidelines and regulations, and accordingly a few traders might cut price the governance disclosures considering that there's a leniency in enforcement.

The moderating variable is likewise called institutional nice withinside the dating among governance and self assurance. According to Laeven and Levine (2009) the ones international locations which have a extra prison system, safety of traders, and independence of the judiciary are possibly to gain progressed consequences of reforms to governance. In the Pakistani context, it's miles discovered that institutional limitations that avert the whole switch of governance reforms into an growth in marketplace self belief are political instability withinside the country, inefficiencies withinside the judicial adjudication system, and monetary illiteracy (Khan and Hong, 2015; Zaidi and Siddiqui, 2018).

Recent research have shifted a challenge to the diffused elements of board range, inclusion of gender, and the moral subculture as they toughen the governance outcomes. Research shows that forums with gender variations can higher screen their board great, in addition to boom stakeholder self belief (Adams and Ferreira, 2009; Terjesen, Aguilera and Lorenz, 2015). Although the codes of governance sell the illustration of girls in Pakistan, the actual board variety is decrease, which displays a discrepancy among law and company conduct (Hussain, Rigoni and Orij, 2018). Investor perceptions also are turning into greater interconnected with moral lifestyle and company social responsibility (CSR) programs, and CSR-orientated organizations have advanced reputational capital and decrease hazard premium (Mallin et al., 2014; Dhaliwal et al., 2011).

On the whole, the prevailing literature suggests that during Pakistan, the company governance reforms have caused an boom in marketplace transparency, high-satisfactory of reporting, and investor safety, which might be principal environmental elements influencing marketplace self belief (Shabir, 2009; Ahmed and Hamid, 2019). Nevertheless, those tremendous results are balanced through enforcement constraints, the institutional deficiencies and flaws withinside the real implementation, and display that governance reforms are simplest mild withinside the whole healing of investor self belief (Nawaz, 2017; Tariq and Abbas, 2019). Future research are required to assess long-time period alternate in governance and to analyze different complementary institutional alternate like judicial performance, regulatory potential constructing and investor education.

METHODOLOGY

Research Design

The research design was quantitative research to test the association between the corporate governance reforms and market confidence in Pakistan. To gather primary data, a cross-sectional survey was employed to receive responses among the respondents who were in Lahore, Pakistan. The quantitative design was deemed to be suitable since it enabled the researcher to empirically examine the relationship between the independent variables of governance and investor confidence through the use of empirical data. The research was explanatory in essence in the sense that it had the aim of establishing the effect of corporate governance reforms on the market confidence.

Research Approach

In this study, a deductive approach was used. The study was supported by the agency theory (Jensen and Meckling, 1976) and stakeholder theory (Freeman, 1984) as a theoretical framework to establish the hypothesis that the better the governance mechanisms the lesser the information asymmetry and the more the trust of the investors. According to these theories, the hypotheses were formulated and empirically tested through the application of statistical methods.

Population and Sample

The study population group was investors, financial analysts, employees of corporations, and finance students that live in Lahore, Pakistan. The research setting chosen was Lahore since it is one of the largest commercial and financial centres of Pakistan, and there are a great number of investors in the capital market.

The sample size of 250 respondents was taken through non-probability convenience sampling method. The 250 distributed questionnaires yielded 220 valid responses through which data analysis was done leading to a response rate of 88. The chosen respondents were well informed on the practices of corporate governance as well as the stock market thus the reliability of the data gathered.

Data Collection Method

Structured questionnaire was used to collect primary data. The questionnaire has been formulated through the earlier empirical research in the field of corporate governance and market confidence. The tool was divided into two major parts:

- Demographic (age, gender, education, occupation and investment experience).
- Corporate governance reforms and market confidence measurement items.

Questionnaire was given out to the respondents in Lahore both physically and electronically. All the answers were gathered in the course of four weeks.

Measurement of Variables

This research involved one independent variable and one dependent variable.

Independent Variable: Reforms of Corporate Governance.

Some of the dimensions that were used in measuring corporate governance reforms are:

- Board independence
- Practices of transparency and disclosure.
- Effectiveness of the audit committee.
- Minority shareholder protection.
- The intensity of regulatory enforcement.

- The dimensions were measured on a 5-point Likert scale with 1 (Strongly Disagree) to 5 (Strongly Agree).

Dependent Variable: Confidence in the market.

Market confidence was tested using indicators like:

- On listed companies, investor confidence.
- Transparency of the stock market, as seen.
- Willingness to invest
- Effectiveness in regulation perception.
- The measurements of these items were also done under a 5-point Likert scale.

Research Hypotheses

The hypotheses were formulated on the basis of the theoretical background and the literature of the past:

- H1: Reforms in corporate governance had a strong positive impact on market confidence in Pakistan.
- H2: There was a high positive correlation between board independence and investor trust.
- H3: Practice of transparency and disclosure had a strong positive effect on the perception of market stability.

Reliability and Validity

Cronbach Alpha was used to measure the reliability of the measurement instrument. The Cronbach alpha value of the study variables was 0.87 and this showed high internal consistency. Each of the constructs surpassed the acceptable standard of 0.70.

The measurement items were adapted in accordance with the existing studies; additionally, two academic specialists on the topic of finance and corporate governance were consulted to guarantee that the measurement items were content valid. Factor analysis was used to determine construct validity; it was ensured that the items loaded accordingly on their constructs.

Data Analysis Techniques

The data obtained was analyzed with Statistical Package of Social Sciences (SPSS). Analysis was done in the following steps:

- **Demographic Analysis:** The frequency and percentage statistical measures were employed to summarize the characteristics of the respondents.
- **Descriptive Analysis:** The statistics that were computed were Mean and standard deviation in order to test the overall perceptions on governance reforms and market confidence.

- **Correlation Analysis:** Pearson correlation analysis was used to check the strength and direction of relationships amongst variables.
- **Regression Analysis:** Multiple regression analysis was conducted in order to test the effect of the corporate governance reforms on the confidence of the market.

Statistical significance was calculated at a level of significance of 0.05.

Ethical Considerations

Ethical issues were highly upheld during the research. The study was voluntary with respondents being informed of the aim of the study. The anonymity and confidentiality were guaranteed and no personal identifying information was provided. The data gathered were only utilized on academic basis.

DATA ANALYSIS

This part provided empirical results of the research on the effect of corporate governance reforms on market confidence in Lahore, Pakistan. The SPSS was used to analyze the data and included demographic analysis, descriptive statistics, reliability testing, correlation analysis and regression analysis. Every explanation was made in paragraph form and statistical results were in tables.

Demographic Analysis

Frequency and percentage statistics were used to analyse the demographics of respondents. The findings are given in Table 1.

Table 1: Demographic Characteristic of the Respondents (n = 220)

Variable	Category	Frequency	Percentage (%)
Gender	Male	140	63.6%
	Female	80	36.4%
Age	20–30 years	110	50.0%
	31–40 years	65	29.5%
	41–50 years	30	13.6%
	Above 50	15	6.8%
Education Level	Bachelor's	95	43.2%
	Master's	90	40.9%
	MS/MPhil/PhD	35	15.9%
Occupation	Investor	85	38.6%
	Corporate Employee	60	27.3%
	Financial Analyst	35	15.9%
	Student	40	18.2%

The findings showed that most of the respondents were males (63.6) and females had 36.4% representation. The number of respondents aged 20-30 years (50-percent of total respondents) indicated that young investors and professionals were very active. The number of respondents was well-educated, as most of them had obtained a bachelor's degree. The biggest occupational group (38.6%), comprised of investors, which enhanced the applicability of the findings to the market confidence.

Descriptive Statistics

The descriptive statistics were calculated to assess the perception of the respondents on the corporate governance reforms and confidence in the market.

Table 2: Descriptive Statistics

Variable	Mean	Std. Deviation
Board Independence	3.82	0.71
Transparency & Disclosure	3.95	0.65
Audit Committee Effectiveness	3.76	0.73
Minority Shareholder Protection	3.68	0.78
Regulatory Enforcement	3.70	0.74
Market Confidence	3.88	0.69

The descriptive findings indicated that the highest mean was found in the transparency and disclosure practices (3.95) meaning that the respondents tended to view that standards of reporting were improved. The mean score of market confidence was 3.88, which indicates the moderately high investor confidence in the governance reforms. The lowest mean value was obtained in minority shareholder protection (3.68) suggesting that the respondents felt that more needs to be done in this aspect.

Reliability Analysis

The Alpha of Cronbach was determined to determine the internal consistency of the constructs.

Table 3: Reliability Analysis

Construct	Number of Items	Cronbach's Alpha
Corporate Governance Reforms	20	0.89
Market Confidence	8	0.85
Overall Scale	28	0.87

The Cronbach's Alpha values exceeded the acceptable threshold of 0.70, indicating strong internal consistency. The overall reliability of 0.87 confirmed that the measurement instrument was statistically reliable.

Correlation Analysis

Pearson correlation analysis was conducted to examine the relationships among variables.

Table 4: Correlation Matrix

Variables	1	2	3	4	5	6
1. Board Independence	1					
2. Transparency & Disclosure	0.61**	1				
3. Audit Committee Effectiveness	0.58**	0.64**	1			
4. Minority Protection	0.55**	0.60**	0.59**	1		
5. Regulatory Enforcement	0.63**	0.67**	0.62**	0.57**	1	
6. Market Confidence	0.66**	0.72**	0.64**	0.60**	0.69**	1

Note: $p < 0.01$

The correlation analysis was found to be strong comprising of positive relationships between the corporate governance dimension and market confidence. Market confidence had the highest correlation with transparency and disclosure ($r = 0.72$, $p < 0.01$). There was also a significant positive relationship between regulatory enforcement ($r = 0.69$). These results indicated that governance practices were closely related to investor trust.

Regression Analysis

The analysis was conducted using multiple regression analysis to determine the effect of corporate governance reforms on market confidence.

Table 5: Model Summary

Model	R	R ²	Adjusted R ²	Std. Error
1	0.78	0.61	0.60	0.44

The model summary indicated that corporate governance reforms explained 61% of the variance in market confidence ($R^2 = 0.61$). The high R-value (0.78) showed a strong overall relationship between independent and dependent variables.

Table 6: ANOVA Results

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	85.34	5	17.06	88.45	0.000
Residual	54.21	214	0.25		
Total	139.55	219			

The ANOVA results showed that the model was statistically significant ($F = 88.45$, $p < 0.001$), indicating that corporate governance reforms significantly predicted market confidence.

Table 7: Coefficients Table

Variable	Beta	t-value	Sig.
Board Independence	0.21	3.95	0.000
Transparency & Disclosure	0.29	5.21	0.000
Audit Committee Effectiveness	0.18	3.40	0.001
Minority Shareholder Protection	0.15	2.88	0.004
Regulatory Enforcement	0.25	4.67	0.000

The regression coefficients showed that the corporate governance reforms of all dimensions positively and statistically influenced the market confidence. The strongest effects were transparency and disclosure ($b = 0.29$) then enforcement of the regulation ($b = 0.25$). The most significant, but least significant impact was made on minority shareholder protection ($b = 0.15$).

Hypotheses Testing

The results of the regression showed that:

- H1 was accepted because the market confidence had a substantial positive effect due to corporate governance reforms.
- H2 was substantiated, as the independence of the boards had great effects on the investor trust.
- H3 was proven to be true, where the market stability perceptions were greatly affected by transparency and disclosure.

Overall Interpretation

The findings of the empirical studies revealed that the corporate governance reforms were very instrumental in enhancing market confidence in Lahore, Pakistan. The high correlation and regression outcomes indicated that the investor trust and willingness to invest increased with the better disclosure practices, enforcement of regulations, and board structures by the independent board. The explanatory power of the model (61) demonstrated that the reforms in the governance were one of the major determinants of market confidence, although other macroeconomic and institutional variables may also play a role.

In general, the data analysis was a solid statistical evidence of the argument that effective reforms in corporate governance have played an important role in enhancing investor confidence in the capital market of Pakistan.

DISCUSSION

The results of this research presented a very high empirical proof that the reforms in corporate governance contributed to the increase in market confidence in Lahore of Pakistan in a significant way. Regression findings showed that the overall dimensions of corporate governance contribute a significant percentage of variation on market confidence, which supported the practical significance of the governance mechanisms in enhancing investor confidence. Specifically, the best predictor of market confidence proved to be the transparency practices and disclosure practices. This observation was in line with the agency theory that states that minimization of the information asymmetry between the managers and the shareholders will reduce opportunistic behavior and increase trust (Jensen and Meckling, 1976). The more investors felt that financial reporting and corporate disclosures were clear, timely and reliable then, the more their confidence in the capital market rose.

The good and impactful impact of regulatory enforcement further supported the idea that the reforms should not exist only on paper but need to be translated into practice properly. The more the respondents perceived that the corporate practices were closely supervised by the regulatory bodies and that the standards governing the corporate practices were not violated, the better the trust level was. This finding conformed to the previous literature that indicates robust institutional supervision in the emergent markets where insider control and concentration of ownership are a usual problem. The independent board role was also found to be statistically significant, and this proves that independent directors serve in objective decision-making and enhance monitoring of the management practices. This confirmed the theoretical

hypothesis that agency conflicts are mitigated and corporate accountability enhanced by having independent governance structures.

Whereas the minority shareholder protection had the lowest coefficient of beta among the governance dimensions, it however exhibited a strong positive association with the market confidence. This implied that although there was an improvement, investors could still feel that there were lapses in the enforcement of the minority rights. The problem of small shareholders in the emerging markets such as Pakistan is usually suppressed by the concentrated ownership structure and thus, it is still necessary to continue reforms in this field. In general, the conclusions showed that governance reforms were not just regulatory formalities but significantly helped to create investor perceptions, a good degree of credibility, and stabilize the capital market environment.

The outcomes of the correlation also supported the presence of strong interrelations between different dimensions of governance, which meant that reforms were not carried out independently, but in a concerted manner. As an example, transparency went hand in hand with regulatory implementation and board performance implying that an in-depth governance structure formed a self-reinforcing chain of accountability and trust. The large percentage of the explanatory power of the regression model was an indication of the increasing significance of the governance reforms in influencing the behavior of investors in the changing financial environment of Pakistan. All these results underscored the fact that sustainable market confidence was pegged on enhanced steady improvements in governance and proper institutional management.

CONCLUSION

Overall, the research determined that corporate governance reforms were significant and positively affected on the market confidence in Lahore, Pakistan. Indeed, the empirical examination proved that better transparency activities, efficient regulatory oversight, autonomous board frameworks, and a better minority shareholder safeguarding all elevated trader trust and presumed market stability. The findings were in favor of agency and stakeholder theories because it proved that less information asymmetry and stronger accountability mechanisms led to more confidence in the capital market. All in all, the research established that corporate reforms of governance were a key factor in terms of investor confidence and credibility of the financial market in Pakistan.

RECOMMENDATIONS

According to the findings, the recommendation was that regulatory authorities should go ahead to enforce tougher control mechanisms in order to make sure that the codes of governance are well adhered to. The main focus of companies should be the improvement of transparency and financial disclosure in order to keep the investors trust. Greater emphasis ought to be on enhancing the minority shareholder protection as a way of solving the problem of ownership concentration. Also, the introduction of training programs to board members and corporate executives is needed in order to enhance awareness of governance and the ethical standards. Future studies can increase the geographical area of the study to Lahore and can also include longitudinal data to evaluate the long-term effect of governance reforms on market performance.

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