

Corporate Governance and LPG Sector of Pakistan

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ABSTRACT

In emerging economies, corporate governance (CG) is a well-established factor that substantially influences the development of businesses, especially when institutional frameworks are actively involved in their development (OECD, 2023). This paper is limited to the liquefied petroleum gas (LPG) sector of Pakistan. It analyzes various governance mechanisms that have deterred its development. Although the industry has experienced extensive growth due to high energy demand, regulatory discrepancies, safety risks, and market inefficiencies have undermined its structural growth (World Bank, 2024). It is maintained that lapses in the governance system and regulatory mechanism have restricted the progress of the sector. The research is based on a qualitative method of analysis, which examines the impacts of transparency, board effectiveness, and the enforcement of the regulations on investment, operational efficiency, and market expansion. The results indicate that an increase in governance practices may increase investor confidence, increase compliance, and the sustainability of sectoral growth.

Keywords: business development, corporate governance, LPG business, Pakistan, regulatory framework, sustainability.

INTRODUCTION

According to the Securities and Exchange Commission of Pakistan (SECP), CG is defined as the policies, rules, processes, and practices by which a company is executed, managed, and held accountable. The purpose of CG is to balance the interests of stakeholders, including regulators, management, shareholders, and customers, and ensure ethical leadership, fairness, and transparency for leading the sustainability and business development of the firms. In developing economies like Pakistan, governance structures are empirically important in the energy sector to reduce the firms' inefficiencies, which directly affect both the economic stability and welfare of the people (Govt. of Pakistan, 2023).

Pakistan has faced the energy crisis, primarily of electricity and pipeline gas, in the last thirty years. The demand for alternative fuels, like LPG, has grown significantly. (OGRA, 2024). Although the expansion of LPG is indicative of the market demand, it has also highlighted the firms' structural deficiencies and governance discrepancies that have restricted their development and efficiency. (World Bank, 2024).

Although the impact of corporate governance on firm performance is the main subject of this study, it is maintained to examine different dynamics of governance factors that affect the business development of the LPG sector.

Overview of Pakistan's LPG Sector

In Pakistan, OGRA is authorized under the LPG Production and Distribution Rule (2001) to regulate the LPG sector. It has the authority to issue licenses, mandate supply quotas, control prices, and monitor safety

standards (Govt. of Pakistan, 2023). The Pakistan LPG sector has several producers, marketing companies, distributors, and retailers, and notably some major key players in the private sector.

Despite the high growth potential in the sector, its growth has been restricted by:

- Fragmented market structure and supply chain manipulation
- Foreign exchange constraints
- Failure of enforcement of regulatory policies.
- Non-compliance with safety standards

The fragmented market structure comprises a comparatively small number of local producers, including extraction and production companies, as well as refineries that meet only 60 percent of the two-million-ton annual market demand. The rest consists of importers and marketing companies (OGRA, 2024).

Foreign exchange has largely contributed to worsening the LPG pricing in Pakistan. The shrinking foreign exchange reserves in the market and the widespread overpricing by most market players disrupt the supply, leading to higher prices (OGRA, 2024). Similarly, the devaluation of the currency, combined with regional conflicts, remains a reason for price increase, leading to aggravated household affordability (Dawn.com, 12th Feb, 2025).

Despite the regular crackdowns by OGRA, the LPG sector is afflicted by poor enforcement capability, overwhelming corruption, and delays in legislation. ‘Such factors of governance lead to operational ineffectiveness that reflects institutional weaknesses. Therefore, the governance issues impede the long-term sectoral development (OECD, 2023).

In the LPG sector, the non-compliance with regulatory policies is described as operating without licenses and safety certification, manufacturing of substandard cylinders, illegal decanting or mixing CO₂ with LPG, and overcharging consumers (OGRA, 2024). It is observed that non-compliance with LPG regulatory policies has resulted in significant safety hazards and rising fatal incidents in various parts of the country (Dawn.com, 12th Feb, 2025).

Theoretical Framework: Business Development and Corporate Governance

The theoretical framework of CG concerning business development, according to Nguyen and Locke (2022) state, is divided into three perspectives: agency theory; stakeholders theory; and institutional theory.

- Agency theory suggests that there should be an explicit mechanism for management to safeguard the interests of the shareholders.
- Stakeholder theory recommends that an effective CG should consider a company accountable to stakeholders, such as regulators, employees, suppliers, shareholders, and the wider society.
- Institutional theory explains how rationality, social norms, and regulations influence organizations to focus on legitimacy rather than economic efficiency to gain acceptance in a similar environment.

In the LPG sector of Pakistan, the governance failures include weak institutional enforcement and insufficient firm-level accountability (World Bank, 2024).

Corporate Governance and Development of the LPG Sector

Government and Strategic Development

Effective governance involves separating governance from management with high ethical standards and oversight to promote transparency and accountability to achieve sustainability and responsiveness to the stakeholders' needs (OECD, 2023). However, the LPG industry in Pakistan faces substantial challenges of governance, including slow implementation of regulations and weak enforcement of safety standards by OGRA, and price manipulation by suppliers and retailers (PIDE, 2022). Therefore, such practices widely discourage investment and restrict innovation for the sustainability and development of the LPG sector (World Bank, 2024).

Investor Confidence and Market Expansion

Transparency and accountability are essential for attracting investment. Restricted disclosure practices and inconsistent regulatory policies increase perceived risks, which discourages both domestic and foreign investors (Nguyen and Locke, 2022). However, even after twenty-four years of the OGRA Ordinance, its regulatory enforcement is limited to tariff determination. Therefore, to boost confidence in attracting investment in the LPG sector, a level playing field is needed to leverage digital platforms and ensure smooth imports to meet rising demand; thus, the government must oversee regulatory improvements, ensure policy consistency, and deregulate pricing (PIDE, 2022). Henceforth, the CG plays a vital role in safeguarding the interests of individual firms and also upholding the credibility of the market as a whole.

Governance and Risk Management

According to OECD (2022), business governance is guided by the rules of an enforcing authority, while risk-based management is carried out by individual companies. Risk-based management and safety governance are imminent concerns because of the inherently hazardous nature of LPG. Nevertheless, systemic governance failures are evident through recurring incidents of low-quality cylinders and illegal decanting activities, rather than operational problems (OGRA, 2024).

Analytically, weak enforcement mechanisms indicate the potential for regulatory capture or capacity limitations in oversight institutions (Nguyen and Locke, 2022). It is essential to strengthen governance in this sector to not only reduce risks but also to enhance public trust.

Ethics and Regulatory Compliance

The existence of cartelization, price fixing, and non-conformance to regulations reveals significant ethical failures in the industry (OGRA, 2024). These practices distort market competition and disproportionately affect consumers.

Among these discrepancies are the formal rules and actual practices (Al-Qadasi, Abidin, and Al- Jaifi, 2023). Policies exist, but their implementation varies, and institutional change, along with more effective accountability mechanisms, is necessary (Nguyen and Locke, 2022).

Critical Evaluation of Governance Challenges

According to the World Bank report (2024), the LPG sector faces substantial governance challenges that reduce its affordability for customers, safety measures for firms, and sectoral growth as a whole. It is examined that such challenges are reasons for exploitative practices in firms, short-sighted policies of the government, and inadequate regulations of OGRA.

The governance issues in the LPG sector of Pakistan are hereby divided into three broad areas:

Institutional Weaknesses

- Ineffective regulatory enforcement
- Policy inconsistency
- Limited monitoring capacity

Firm-Level Deficiencies

- Independent board absence.
- Weak internal controls
- Limited transparency

Market-Level Issues

- Informal business practices
- Price distortions
- Fragmented competition

These ongoing issues, if not addressed, create discrepancies in governance that hinder business development and reduce the LPG sector's contribution to economic growth.

POLICY RECOMMENDATIONS

To improve the governance of the LPG sector, the following multi-level governance reforms are necessary:

Regulatory Reforms

- Enhance the enforcement capability of OGRA.
- Implement policies of severe punishment in case of non-compliance.
- Consistency and transparency of policy.

Firm-Level Improvements

- Enhance board independence and oversight

- Strong internal audit mechanisms.
- Enhance disclosure and reporting standards.

Technological Integration

- Implement electronic supply chain monitoring.
- Pricing transparency using data analytics.
- Implement live compliance monitoring.

CONCLUSION

This research shows that the CG is not only a supporting feature but a main contributing factor to the development of business in the LPG industry of Pakistan. Although the industry has significant potential for expansion, shortcomings in governance practices hinder its effectiveness and erode investors' confidence.

A key understanding of this analysis is that accountability and transparency are the primary supports that underpin regulatory reforms aimed at enhancing the corporate culture of companies. Without a culture shift, the LPG sector risks ongoing inefficiency and damage to reputation.

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