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The Interplay of Regulatory Frameworks, Political Dynamics and Legal Enforcement in the Lens of Pakistan's Corporate Governance Landscape

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ABSTRACT

The study presented a critical analysis of the state of corporate governance in Pakistan by synthesizing findings from three recent studies. It examined the evolution of Pakistan's corporate governance framework, primarily driven by the Securities and Exchange Commission of Pakistan (SECP), and appraises its alignment with international standards. While the doctrinal and regulatory framework, particularly the Companies Act, 2017 and the Code of Corporate Governance, 2019, demonstrates significant sophistication, a critical implementation gap persists. This gap is exacerbated by the dominance of family-owned businesses, weak enforcement mechanisms, and profound political instability. Furthermore, this article uniquely links the challenges in corporate governance to the weaknesses in the broader legal system, particularly the archaic laws governing documentary evidence in criminal proceedings, which hinder the effective prosecution of corporate malfeasance. The analysis concludes that the SECP's success in creating a de jure framework is undermined by de facto challenges in enforcement, political interference, and an under-resourced judicial system, necessitating holistic reforms beyond the corporate regulatory sphere.

Keywords: *Corporate Governance, SECP, Pakistan, Political Instability, Documentary Evidence, Enforcement Gap*

INTRODUCTION

Good corporate governance contributes to sustainable economic development by enhancing the performance of companies and increasing their access to outside capital. In emerging markets good corporate governance serves a number of public policy objectives. It reduces vulnerability of the financial crises, reinforcement property rights; reduces transaction cost and cost of capital and leads to capital market

development. Corporate governance concerns the relationship among the management, board of directors, controlling shareholders, minority shareholders and other stakeholders. In Pakistan, the publication of the

SECP Corporate Governance Code 2002 for publicly listed companies has made it an important area of research of corporate sector. A corporate governance system is comprised of a wide range of practices and institutions, from accounting standards and laws concerning financial disclosure, to executive compensation, to size and composition of corporate boards. A corporate governance system defines who owns the firm, and dictates the rules by which economic returns are distributed among shareholders, employees, managers, and other stakeholders. As such, a county's corporate governance regime has deep implications for firm organisation, employment systems, trading relationships, and capital markets. Thus, changes in Pakistani system of corporate governance are likely to have important consequences for the structure and conduct of country business. In its broadest sense, corporate governance refers to a complementary set of legal, economic, and social institutions that protect the interests of a corporation's owners. In the Anglo-American system of corporate governance these owners are shareholders. The concept of corporate governance presumes a fundamental tension between shareholders and corporate managers [Berle and Means (1932) and Jensen and Meckling (1976)]. While the objective of a corporation's shareholders is a return on their investment, managers are likely to have other goals, such as the power and prestige of running a large and powerful organisation, or entertainment and other perquisites of their position. In this situation, managers' superior access to inside information and the relatively.

Corporate governance (CG) has emerged as a critical determinant of economic stability and investor confidence in emerging markets. In Pakistan, the journey towards robust corporate governance has been a complex interplay of regulatory reform, political volatility, and entrenched socio-economic structures. The Securities and Exchange Commission of Pakistan (SECP) stands as the central architect of this reform, having introduced successive codes and regulations aimed at bringing Pakistani practices in line with global benchmarks like the OECD principles (Jalal & Zubair, 2025). However, the mere existence of a sophisticated rulebook does not guarantee its effectiveness.

This article argues that while the SECP has been proactive in developing a modern corporate governance framework, its effectiveness is critically constrained by three interconnected factors: (1) the resilient influence of family-controlled corporations that often prioritize insider interests over minority shareholders and genuine board independence; (2) chronic political instability that disrupts policy continuity and erodes investor confidence, thereby weakening the incentive for long-term governance compliance; and (3) a frail legal enforcement ecosystem, exemplified by outdated evidence laws, which fails to deter violations and prosecute corporate crimes effectively. By integrating the perspectives of Jalal and Zubair (2025) on international standards, Shakri et al. (2024) on political economy, and Adnan et al. (2025) on legal procedural challenges, this analysis provides a holistic and critical appraisal of Pakistan's corporate governance landscape.

This section reviews the existing body of knowledge and establishes the theoretical underpinnings for analyzing the interplay of regulatory frameworks, political dynamics, and legal enforcement in shaping Pakistan's corporate governance landscape. It is structured to first explore the core theories of corporate governance, then examine the empirical literature related to each of the three key thematic areas, and finally, identify the research gap that this study aims to address.

Theoretical Framework

The study of corporate governance is anchored in several foundational theories that explain the relationships and conflicts within a firm. For the Pakistani context, three theories are particularly relevant:

Agency Theory

Agency Theory, as pioneered by Jensen and Meckling (1976), is the cornerstone of modern corporate governance. It posits a conflict of interest between principals (shareholders) and agents (managers) who are entrusted to run the company. This separation of ownership and control can lead to agency costs, where managers may prioritize their own interests (e.g., perk consumption, empire building) over maximizing shareholder value (Stulz, 1988). Effective corporate governance mechanisms—such as an independent board of directors, vigilant audit committees, and alignment of managerial incentives through ownership—are designed to monitor and control these agency problems (Fama & Jensen, 1983; Yermack, 1996). In Pakistan, characterized by high ownership concentration in family firms (Yasser & Mamun, 2015), the agency problem often manifests as a conflict between controlling shareholders and minority shareholders, rather than between managers and dispersed owners (Shakri et al., 2024).

Stewardship Theory

In contrast to Agency Theory, Stewardship Theory suggests that managers are not solely self-interested but are often motivated to act as stewards of the firm, aligning their goals with those of the shareholders and the organization's long-term health (Donaldson & Davis, 1991). This theory provides a rationale for structures like CEO duality, where a unified leadership can lead to more decisive and effective strategic action, unfettered by the potential inertia of a separate board chair (Al-Hawary, 2011; Gill & Mathur, 2011). The prevalence of family-owned businesses in Pakistan makes this theory relevant, as owner-managers may view themselves as stewards of the family legacy, potentially reducing classic agency costs (Maury, 2006).

Resource Dependence Theory

Resource Dependence Theory (Pfeffer & Salancik, 1978) shifts the focus from control to resources. It argues that a board of directors is a critical mechanism for securing essential resources from the external environment, such as capital, information, and legitimacy. Larger and more diverse boards can provide better links to external stakeholders, enhance the firm's reputation, and help manage uncertainty (Anderson et al., 2004; Coles et al., 2008). This theory helps explain why board size and director networks can be beneficial, especially in an unstable environment like Pakistan, where connections to political and financial institutions are crucial for survival and growth (Shakri et al., 2024).

These theories provide a multi-faceted lens. Agency Theory justifies the need for regulatory oversight and monitoring mechanisms prescribed by the SECP. Stewardship Theory helps explain the resistance from family-owned firms to certain governance mandates, while Resource Dependence Theory illuminates the strategic importance of boards in navigating a complex and volatile socio-political landscape.

Review Of Empirical Literature

The Regulatory Framework And Its Efficacy

Securities and Exchange Commission of Pakistan (SECP) has been the primary driver of corporate governance reforms, introducing successive Codes of Corporate Governance (2002, 2012, 2017, 2019) and the modern Companies Act, 2017. Empirical studies show that these reforms have had a measurable, albeit mixed, impact. Research indicates that the mandatory provisions of the 2012 Code led to significant improvements in firm performance, attributed to expanded board composition and strengthened audit committees (Shakri et al., 2024; Wang, Abbasi, et al., 2019). Specifically, board size and board independence have been found to positively influence firm performance, supporting the tenets of Resource Dependence and Agency Theories (Jackling & Johl, 2009; Yousaf et al., 2021).

However, a persistent theme in the literature is the "implementation gap" or "box-ticking" compliance culture. Jalal and Zubair (2025) and Tariq and Abbas (2013) argue that despite a sophisticated *de jure* framework, *de facto* implementation is weak. Board independence is often superficial in family-dominated firms, and enforcement by the SECP remains challenged by limited resources and a lack of severe penalties for non-compliance. This gap between law and practice is a critical flaw in Pakistan's regulatory landscape.

The Role Of Political Dynamics

The impact of macro-environmental factors, particularly political instability, on corporate governance and firm performance is increasingly documented. Pakistan's history is marked by political turbulence, including frequent changes in government, corruption scandals, and military interventions (Shakri et al., 2024). Studies confirm that such instability erodes investor confidence, leads to foreign capital flight (Asif et al., 2018; Ali & Rehman, 2015), and directly harms firm performance by creating policy uncertainty and disrupting long-term planning (Sulehri & Ali, 2020).

Shakri et al. (2024) provide robust empirical evidence that periods of political instability have a significant negative impact on both accounting and market-based measures of firm performance. Crucially, their research also demonstrates that strong internal corporate governance mechanisms (e.g., larger, independent boards) can act as a buffer, mitigating the adverse effects of political turmoil. This highlights a vital interplay: internal governance can partially insulate firms from external political shocks. Furthermore, research into corporate political lobbying suggests that firms engage with the political sphere to seek favorable treatment, but these benefits can be reversed with a change in regime, adding another layer of risk (Unsal et al., 2020; Cao et al., 2018).

The Critical Link Of Legal Enforcement

The effectiveness of any regulatory framework is contingent on a robust legal system that can enforce rules and adjudicate violations. Here, the literature reveals a critical bottleneck in Pakistan. The country's legal infrastructure for handling commercial and white-collar crimes is largely governed by archaic laws, such as the Code of Criminal Procedure, 1898, and the Qanun-e-Shahadat Order, 1984 (Adnan et al., 2025).

Adnan et al. (2025) detail the profound challenges in the admission and verification of documentary and digital evidence, which are the lifeblood of prosecuting corporate fraud and governance violations. The inability of the legal system to reliably authenticate evidence, the inadmissibility of certain expert reports (e.g., Bomb Disposal Squad reports), and procedural complexities create a high barrier to successful prosecution. This "evidentiary bottleneck" fundamentally undermines the SECP's enforcement capacity. When the probability of conviction is low due to procedural weaknesses, the deterrent effect of corporate governance regulations is severely diminished, fostering a culture of impunity (Farooq et al., 2021).

Synthesis And Research Gap

The existing literature provides valuable but often siloed insights. Studies have extensively documented the SECP's regulatory evolution (Jalal & Zubair, 2025) and the impact of specific governance mechanisms on firm performance (Shakri et al., 2022; Ahmed Sheikh & Wang, 2012). A growing body of work also examines the macroeconomic impact of political instability (Sulehri & Ali, 2020), and a separate stream of legal scholarship critiques the outdated evidence laws (Adnan et al., 2025).

However, a critical gap exists in the integrated analysis of these three domains. There is a scarcity of research that explicitly connects the weaknesses in Pakistan's *legal enforcement infrastructure* to the *enforcement gap* in its *corporate governance framework*, and further, contextualizes this within the nation's chronic *political instability*. This study seeks to fill this gap by arguing that the SECP's regulatory efforts are not operating in a vacuum but are critically constrained by the interplay of a volatile political environment and an under-resourced, outdated legal system. It posits that without concurrent reforms in the judicial and evidence laws, the potential of Pakistan's corporate governance framework will remain unrealized.

The theoretical foundation of corporate governance often rests on Agency Theory (Jensen & Meckling, 1976), which highlights the conflicts of interest between managers (agents) and shareholders (principals). Effective governance mechanisms, such as independent boards and audit committees, are designed to mitigate these conflicts and reduce agency costs. However, in the context of Pakistan, the prevalence of concentrated family ownership blurs the principal-agent problem, often transforming it into a conflict between majority and minority shareholders (Shakri et al., 2024).

Scholarly work confirms the SECP's regulatory progress. The transition from the voluntary Code of Corporate Governance (2002) to the more mandatory frameworks in 2012 and 2019, embedded within the modern Companies Act, 2017, represents a significant legal achievement (Jalal & Zubair, 2025). Studies focused on firm performance, such as Shakri et al. (2024), empirically validate that specific governance mechanisms—like larger board sizes and board independence—have a positive impact, particularly following the 2012 reforms.

However, a consistent theme in the literature is the "enforcement gap." Jalal and Zubair (2025) note that "enforcement remains weak and fragile," allowing many entities to escape full implementation. This gap is often attributed to cultural and political impediments influenced by family-run businesses and political elites. Furthermore, the role of external factors like political instability is increasingly recognized as a critical variable. Shakri et al. (2024) define political instability through events like disqualification of prime ministers, mass protests, and no-confidence votes, finding that such instability directly harms firm performance, though strong internal governance can act as a buffer.

What remains less explored is the direct link between corporate governance enforcement and the efficacy of the criminal justice system. The work of Adnan et al. (2025) on documentary evidence, though situated in criminal law, is profoundly relevant. They highlight that Pakistan's Code of Criminal Procedure, 1898, and the Qanun-e-Shahadat, 1984, are antiquated and ill-equipped to handle modern evidentiary challenges, including digital evidence and sophisticated forgeries. This creates a systemic weakness that directly impacts the SECP's ability to enforce governance codes and hold violators accountable.

Gap Of The Study

While existing literature adequately documents the SECP's regulatory initiatives and the macro-challenge of enforcement, there is a scarcity of integrated analysis that connects the dots between corporate governance deficiencies, political economy dynamics, and the procedural bottlenecks within the legal system. This study fills this gap by synthesizing these disparate strands. It critically investigates how weaknesses in the legal evidence framework, as detailed by Adnan et al. (2025), directly undermine the SECP's enforcement capacity and perpetuate a culture of impunity for corporate governance violations.

MATERIALS AND METHODS

This research employs a doctrinal legal research method combined with a systematic review of recent empirical studies. The primary materials for analysis are the three provided articles, which represent current scholarship (2024-2025) on Pakistan's corporate governance and legal evidence. The method involves:

- **Primary Source Identification:** The key regulatory frameworks—Companies Act, 2017, and Code of Corporate Governance, 2019—are analyzed through the lens of the provided articles.
- **Secondary Source Synthesis:** A systematic review and synthesis of the three core articles (Jalal & Zubair, 2025; Shakri et al., 2024; Adnan et al., 2025) is conducted to identify convergent themes and critical insights.
- **Critical Analysis:** The synthesized information is critically appraised to evaluate the coherence, effectiveness, and practical application of Pakistan's corporate governance system, with a specific focus on the interplay between regulation, politics, and legal enforcement.

ANALYSIS

Pakistan's corporate governance framework is built around the Companies Act 2017, the Securities and Exchange Commission of Pakistan (SECP) Act 1997, and the Listed Companies (Code of Corporate Governance) Regulations 2019. These laws were introduced to promote accountability, transparency, and fairness in corporate affairs. The Companies Act 2017 aimed to modernize outdated provisions, set clear responsibilities for directors, and ensure protection for minority shareholders. The SECP was empowered to regulate companies and oversee compliance with governance principles. The Code of Corporate

Governance 2019 further established rules for board composition, internal control systems, and financial disclosures to align with global best practices.

Figure-1 Pillars of Pakistan's Corporate Governance

However, in practice, these frameworks face major challenges. Implementation remains weak because of political influence, limited institutional independence, and a lack of strict enforcement. The SECP, despite having legal authority, often struggles to act freely against politically connected corporations or influential business groups. Many companies treat compliance as a mere formality, fulfilling documentation requirements without real commitment to transparency or ethical conduct. Furthermore, Pakistan's judicial system suffers from procedural delays and lacks specialized corporate courts, which discourages timely resolution of governance disputes.

Critics also point out that the current regulatory environment focuses more on reactive measures than preventive oversight. There is insufficient monitoring of financial reporting standards, and penalties for violations are often too mild to deter misconduct. The absence of a robust whistleblower protection mechanism further weakens accountability within corporations. Additionally, board independence, a key aspect of good governance, is frequently compromised as board members are often appointed based on personal or political connections rather than merit and expertise.

Overall, while Pakistan's legal framework for corporate governance appears comprehensive on paper, it remains fragile in practice due to inconsistent enforcement, political interference, and a lack of institutional capacity. The system needs stronger regulatory autonomy, judicial specialization, and a shift in corporate culture from symbolic compliance to genuine ethical responsibility. Only through such reforms can Pakistan move from a rule-based framework to a performance-based governance culture where integrity and accountability are truly valued.

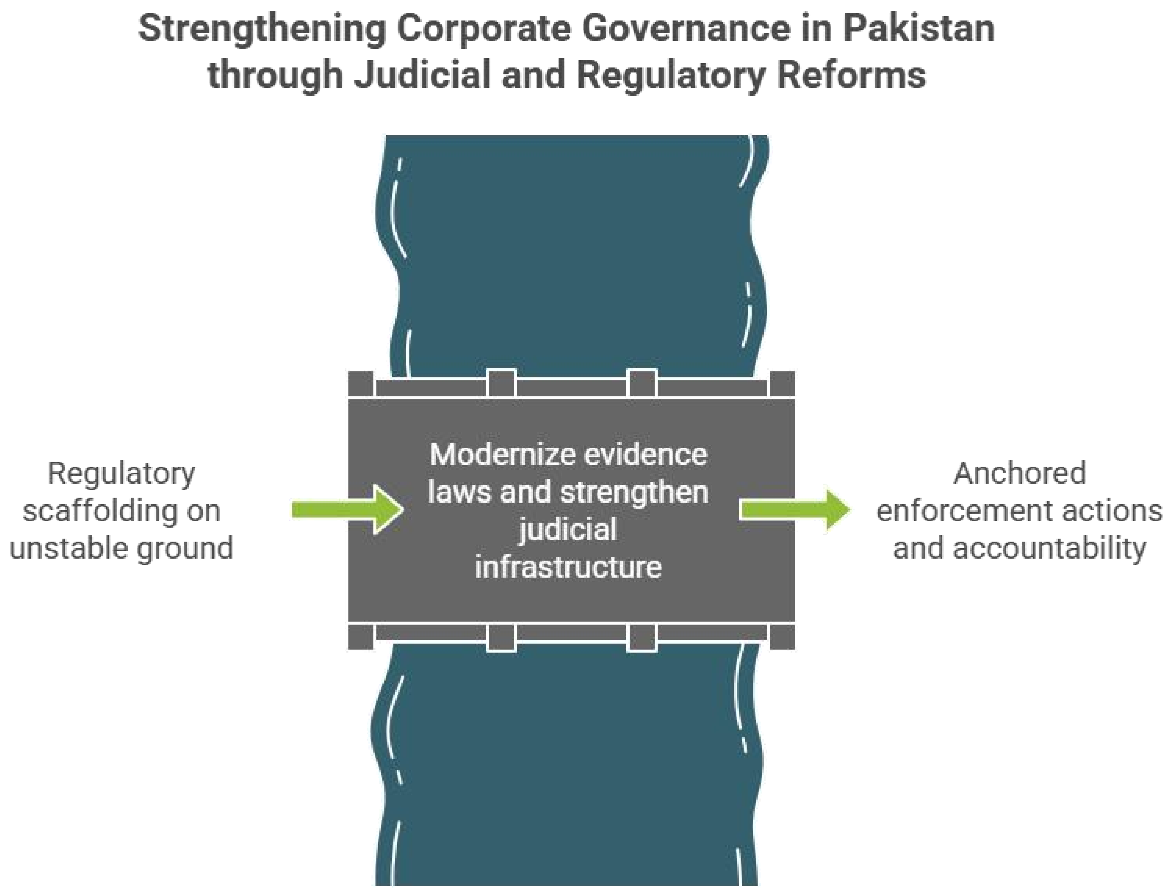
DISCUSSION

The synthesis of these three studies paints a coherent but troubling picture. The SECP has successfully built the regulatory "scaffolding" for good corporate governance in Pakistan. However, this scaffolding is erected on unstable ground, shaken by political earthquakes and eroded by a legal system that cannot firmly anchor enforcement actions.

The discussion must move beyond applauding the SECP for its regulatory drafts and towards a holistic understanding of implementation. The "enforcement gap" is not merely a function of the SECP's limited resources but is deeply embedded in the country's political economy and judicial infrastructure. A sophisticated Code of Corporate Governance is of little use if a company can forge documents with minimal risk of conviction under outdated evidence laws, or if a dominant shareholder can ignore minority rights without fear of a timely and effective legal challenge. This interconnectedness suggests that reforms focused solely on the SECP or the corporate code are insufficient. Strengthening corporate governance in Pakistan requires parallel reforms in the judicial system, particularly the modernization of evidence laws to handle digital forensics and complex financial documentation, as recommended by Adnan et al. (2025).

Pakistan's corporate governance legal framework primarily revolves around the Companies Act 2017**,** the Securities and Exchange Commission of Pakistan Act 1997**,** and the Listed Companies (Code of Corporate Governance) Regulations 2019. These laws collectively aim to ensure transparency, accountability, and protection of shareholder rights. The Companies Act 2017 modernized corporate regulation by emphasizing directors' duties, financial disclosures, and minority shareholder protection. Similarly, the SECP Act 1997 established an autonomous body to regulate and monitor companies, while the 2019 Code set clear standards for board composition, audit committees, and internal controls. However, despite these strong frameworks on paper, their effectiveness remains limited in practice. Critics argue that weak enforcement**,** regulatory capture**,** and political influence undermine these laws. Many corporations comply superficially to avoid penalties rather than genuinely adopting good governance practices. Moreover, judicial delays and lack of specialized corporate tribunals make legal recourse slow and ineffective. Thus, while Pakistan's corporate governance framework aligns with international best practices, its success is largely hindered by poor implementation, insufficient regulatory independence, and a lack of accountability within corporate and political structures.

Figure-2 Strengthening Corporate Governance In Pakistan



RESULTS AND FINDINGS

The findings of this study reveal that Pakistan's corporate governance framework, though comprehensive in design, remains weak in execution due to systemic and structural challenges. The Companies Act 2017, SECP Act 1997, and the Code of Corporate Governance 2019 collectively establish a well-developed regulatory foundation intended to foster transparency, accountability, and investor confidence. However, empirical and doctrinal analysis shows that these frameworks have not achieved their intended impact because of poor enforcement mechanisms and deep-rooted political and institutional limitations. The SECP's regulatory power is often curtailed by political pressures and the influence of powerful business elites, which significantly reduces its ability to act independently and hold corporations accountable for governance failures.

The study also finds that political instability is a major external factor that negatively affects governance continuity and corporate performance. Frequent government changes, policy reversals, and corruption scandals create uncertainty in the regulatory environment, discouraging long-term investment and undermining confidence in the legal system. Research by Shakri et al. (2024) confirms that during periods of political turmoil, firms tend to deviate from good governance practices, focusing on short-term survival rather than sustainable management. This situation is further aggravated by the dominance of family-owned enterprises, which often treat corporations as personal domains. This ownership concentration limits true board independence, marginalizes minority shareholders, and perpetuates insider control, as pointed out by Jalal and Zubair (2025).

A critical finding of the analysis is the weak linkage between corporate governance regulation and legal enforcement. The outdated nature of Pakistan's procedural and evidentiary laws—especially the Code of Criminal Procedure, 1898, and the Qanun-e-Shahadat Order, 1984—creates significant hurdles in prosecuting white-collar crimes and corporate frauds. Adnan et al. (2025) highlight that the lack of modern mechanisms for authenticating digital and documentary evidence severely undermines the ability of the SECP and courts to secure convictions. Consequently, violators of governance principles operate with relative impunity, leading to a culture of non-compliance. This evidentiary weakness not only limits the effectiveness of regulatory sanctions but also erodes public trust in corporate justice.

Furthermore, the study's synthesis of recent empirical literature suggests that while internal governance mechanisms—such as larger boards, independent directors, and active audit committees—can mitigate some of the risks arising from political and economic uncertainty, these mechanisms alone are insufficient without strong external enforcement. The absence of specialized corporate courts, prolonged litigation, and lenient penalties collectively discourage accountability. As a result, firms often engage in "cosmetic compliance," fulfilling reporting formalities without integrating governance principles into their corporate culture. the results demonstrate that Pakistan's corporate governance system is not hindered by the absence of regulations but by the inefficiency of implementation, the fragility of legal enforcement, and the volatility of political conditions. For genuine improvement, reforms must extend beyond drafting new codes to include institutional strengthening of the SECP, modernization of evidentiary laws, establishment of corporate tribunals, and insulation of regulatory institutions from political interference. Only through a coordinated reform strategy that links regulation, law, and governance culture can Pakistan achieve a sustainable and credible corporate governance system.

Figure-3 Pakistan Corporate Governance Challenges

CONSLUSION AND RECOOMENDATIONS

In conclusion, the role of the SECP in strengthening corporate governance in Pakistan is pivotal but constrained. While the regulator has been an active and progressive force in law-making, its efforts are consistently undermined by factors beyond its direct control: concentrated ownership structures, a volatile political environment, and an outdated legal enforcement mechanism. The Securities and Exchange Commission of Pakistan has undoubtedly played a pivotal role in elevating the discourse and formal structure of corporate governance in the country. Its transition from the rudimentary 2002 Code to the sophisticated framework embedded in the Companies Act, 2017 and the 2019 Code marks a remarkable regulatory achievement. The SECP has successfully moved Pakistan's corporate governance landscape into the 21st century.

However, this critical appraisal concludes that the SECP's success in strengthening *practices* is incomplete. The regulator now faces the more formidable challenge of bridging the gap between law and practice. Future success will depend less on drafting new rules and more on enhancing supervisory capacity, ensuring stringent and consistent enforcement, and catalyzing a cultural transformation within Pakistani boardrooms.

To bridge the gap between law and practice, a multi-pronged approach is essential:

1. **For the SECP:** Enhance monitoring capacity through technology and impose graduated, meaningful sanctions for governance failures. Promote a cultural shift from compliance to conduct through director education programs.
2. **For the Legislature:** Prioritize the comprehensive reform of evidence laws to align with international standards, particularly for electronic and documentary evidence, to empower the prosecution of complex corporate crimes.
3. **For the Judiciary:** The National Judicial Academy should conduct specialized training for judges on corporate law and modern financial forensics to improve the adjudication of corporate governance cases.
4. **Systemic Reforms:** Address the challenges in the state-owned enterprise sector through a whole-of-government approach and encourage institutional investor activism to provide a counterweight to dominant shareholders.

Ultimately, the strengthening of corporate governance in Pakistan is not a task for the SECP alone. It is a national project that requires sustained commitment from lawmakers, the judiciary, and the corporate sector to create an ecosystem where rules are not just written but enforced, and where good governance is recognized as a strategic imperative for economic survival and growth.

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