Pak. j. life soc. Sci. (2024), 22(2): 15192-15208 E-ISSN: 2221-7630;P-ISSN: 1727-4915

Pakistan Journal of Life and Social Sciences
www.pjlss.edu.pk

https://doi.org/10.57239/PJLSS-2024-22.2.001098

RESEARCH ARTICLE

Revisiting the Effect of Board Characteristics on Firm Performance: The Influence of Director Ownership and Institutional Ownership in Pakistan

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ARTICLE INFO

Received: Sep 18, 2024

Accepted: Nov 19, 2024

Keywords

Board Size

Female Directors

Outside Directors

Institutional Ownership

Director Ownership

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ABSTRACT

This study revisits the influence of corporate governance on firm performance of Pakistan textile sector. It investigates the moderating influence of director ownership and moderating influence of institutional ownership on the relationship between board characteristics including board size, female directors, outside directors and firm performance including Tobin's Q and market-to-book ratio. The study applies system GMM and panel data fixed effect regression on 858 firm year observations of data ranging from 2012-2023. The findings of this study indicate that board characteristics, including board size, gender diversity, and a mix of outside directors, significantly influence firm performance. Furthermore, both director ownership and institutional ownership significantly moderate the relationship between these board characteristics and firm performance. In case of subsamples, moderating influence of director ownership also varies with high or low levels of institutional ownership. Overall, this study offers new insights based on agency theory regarding the interaction of director and institutional ownership with board characteristics. The evidence of this interaction serves as a strong reference for future corporate governance reforms in Pakistan.

1. INTRODUCTION

There are considerable differences in corporate governance frameworks and practices between Pakistan and most developing economies (Yasser et al., 2014). In Pakistan, majority firms display concentrated ownership structures with strong family ownership or associated companies (Yasser et al., 2017a). Majority ownership stake in these family firms is owned by directors and their family members (Fatima et al., 2018; Waheed & Malik, 2019). Pakistani corporate environment is characterized by power asymmetries among controlling shareholders, minority shareholders, and management, in favor of the controlling shareholders (Yasser et al., 2014).

The problem is sound in Pakistani textile industry which is the biggest and the complex manufacturing sector of the country according to The Nation (Nini, 2018) and acts like the back bone of economy. As of the year 2019, the textile sector contributed 57% of the total exports and engages 40% of the total labor force. Unfortunately, textile sector, since its inception, is facing continuous rise and fall in performance due to several internal (firm-specific) and external (national and international economic) factors (Memon et al., 2020). Furthermore, controlling or founding families

dominate the ownership structure of textile sector companies of Pakistan (Fatima et al., 2018) including the other manufacturing sector firms (Hamid & Koshich, 2006).

It is a commonly held viewpoint that corporate boards are fundamental component of corporate governance which assign the strategic dimensions and align the goals for a company. Anyhow, the optimal board structure is still inconclusive (Agyemang & Castellini, 2013). For example, the unsolidified controversy is still prevalent on the board composition of "insiders" or "outsiders" (Nicholson & Kiel, 2007), the optimal board size and gender diversity (Akbar et al., 2020; Athar et al., 2023; Ullah et al., 2020; Waheed & Malik, 2021). Akbar et al. (2020) studies the relationship of different characteristics of board and ownership structure with firm performance by dividing the data into subsamples on basis of size of firm in Pakistan. Whereas, Waheed and Malik (2021) studies moderating influence of institutional ownership between board characteristics and firm performance in Pakistan. Similarly, Javeed et al. (2021) and Waheed and Malik (2021) studies the moderating influence of ownership concentration between board characteristics and firm performance in Pakistan. Several authors also study the relationship between board characteristics and firm performance including (Adem & Dsouza, 2024; Al-Matari, 2024; Hasan et al., 2023; Hassan et al., 2023; Husnain et al., 2021).

Furthermore, the issue of ownership may moderate the board's decisions through voting rights, especially in the context of concentrated ownership, which is prevalent in Pakistan (Waheed & Malik, 2019). This is particularly applied on controlling or founding families dominating the ownership structure of listed companies of Pakistan (Hamid & Koshich, 2006) including textile sector (Fatima et al., 2018). These concentrated family owners and family directors can expropriate the interests of minority shareholders. These self-serving interests can raise the type-II agency conflict. Because concentrated owners prioritize their personal interests over the interests of minority shareholders which raises agency issue (Abdullah et al., 2019; Hashmi et al., 2023; Khurshid et al., 2021).

In Pakistan, the family dominated ownership structure gives rise to insider control and directors concentrated ownership, where the major stake in ownership is largely in the hands of directors who are the family members of the major shareholders (Fatima et al., 2018; Shah & Cheema, 2006; Waheed & Malik, 2019). The major shareholders as directors can take decisions which are in the best interest of concentrated owners in spite of all shareholders including minority shareholders. It could raise the type-II agency conflict between large and small shareholders (Abdullah et al., 2019; Hashmi et al., 2023; Khurshid et al., 2021).

This agency conflict can be minimized by the presence of external control mechanism in form of institutional ownership (Waheed & malik, 2019). Institutional owners, in this regard, can act as external control mechanism to bring equilibrium in the firm's ownership structure on basis of their voting power, expertise, skills and ability to influence the governing body (Waheed & Malik, 2021). The presence of institutional ownership in the ownership structure of companies in developed as well as developing economies has rapidly increased in response to corporate scandals, frauds and fraudulent financial disclosures (Baker & Jabouri, 2017). In case of Pakistan, institutional ownership is in developing phase as diverse groups of institutional shareholders are owning the corporate shares including government as well as non-government institutions but proper legislation to protect the rights of institutional owners is lacking (Fatima et al., 2018).

This study revisits the fundamental relationship between board characteristics and firm performance, by adding the moderating role of director ownership in explaining the relationship in more insightful manners. Additionally, this study examines the influence of level of institutional ownership over the moderating influence of director ownership on the said fundamental relationship. For this purpose, the moderating effect of director ownership is firstly identified on full sample. Afterwards, the sample of study is divided into two subsamples on basis of high and low institutional ownership. The moderating effect of director ownership is then assessed on each subsample by using fixed effect regression method. In case of Pakistan, the subsample-based study is also performed by (Akbar et al., 2020). Furthermore, some of the previous studies in the Pakistani context (Abbas et al., 2018; Afza et al., 2015; Kamran & Shah, 2014) ignore the potential endogeneity problem in corporate governance related studies by using panel data fixed and random effect models.

This study implements GMM (Roodman, 2009) in order to provide more robust and generalizable results.

The current study provides a unique response to call for more research (Javeed et al., 2021; Waheed & Malik, 2019; Waheed & Malik, 2021) in the prospect of developing countries in this area. Pakistan is a developing country which is facing numerous challenges including political instability, corruption, and weak law proclamation (Easterl, 2001). Ibrahim (2006) identifies that CG practices in Pakistan are still in developing stage. Furthermore, Shah and Butt (2009) reveal that corporate boards in majority of Pakistani companies are inefficient mainly because of concentrated ownership. Furthermore, the present codes of corporate governance regulate the establishment of sound CG practices for transparent practices and disclosure.

The findings of this study contribute to the existing literature in several ways. First, while many previous studies have examined the individual effects of board characteristics and ownership structure on firm performance, there is less understanding of how these board characteristics interact with director ownership. This study addresses this research gap within the context of Pakistan, which is particularly relevant. Second, it presents new findings on the influence of institutional ownership on the moderating roles of director ownership. This analysis is conducted using subsamples of firms with high and low institutional ownership.

The remainder of the paper is organized as follows. Section 2 presents the comprehensive literature review focusing the developing as well as developed countries. Section 3 elaborates on the theoretical and conceptual framework on basis of hypotheses development. Section 4 discusses the methodology and definitions of variables for the analysis. Section 5 presents the empirical findings of data analysis and discussion. Last section discusses the conclusion including research implications, limitations and the future research recommendations.

2. LITERATURE REVIEW

2.1 Theoretical framework

Agency theory by Jensen and Meckling (1976) is widely held among corporate governance theories which focuses on agency issues between agent and principal and to resolve it. Min (2018) identifies that corporate board is a fundamental part of the CG mechanisms which is keenly intended to protect owners' interests and thereby attempts to reduce the influence of professional management. Theoretically, it is assumed that corporate board performs the agency as well as resource dependence roles (Ntim, Opong & Danbolt, 2012). Agency theory also pronounces the effect of concentrated ownership and its influence on firm performance. However, a large number of studies identify that if the ownership concentration and institutional ownership increases beyond a certain level then it not only directly affects but also indirectly affect the firm performance by affecting the corporate governance mechanisms (Javeed et al., 2021; Waheed & Malik, 2019; Waheed & Malik, 2021). Furthermore, Stewardship theory considers the inside directors as good alternative because they are more well-informed about strengths and weaknesses of firm.

2.2 Board size and firm performance

Agency theory states that corporate boards must be of reasonable size (Jensen & Meckling, 1976). Whereas, resource-dependence theory elaborates that larger boards enable firm to acquire imperative resources (Ntim et al., 2012). Empirically, a large number of studies identify diverse results of relationship between board size and firm performance which include (Adem & Dsouza, 2024; Akbar et al., 2020; Al-Matari, 2024; Athar et al., 2023; Azhar & Mehmood, 2018; Bansal & Singh, 2021; Hassan et al., 2023; Khan et al., 2021; Waheed & Malik, 2021). Adem and Dsouza (2024) found positive impact of board size on performance of firms. Al-Matari (2024) finds negative significant impact on firm performance. Gull et al. (2013) in a study on Pakistani textile firms find positive association between size of board and FP. Hassan et al. (2023) and Husnain et al. (2021) also find significant positive impact. Akbar et al. (2020) finds negative relationship of board size with Tobin's Q and positive significant with ROE in Pakistan. Whereas, Azhar and Mehmood (2018) in Pakistan textile sector and Wang et al. (2020) also find insignificant results. Whereas, Yasser et al. (2017b) find its positive influence on ROA and insignificant on Tobin's Q in Pakistan.

Board size is found as a significant determinant of firm performance (Abbas, Ahmed, Malik, & Waheed, 2018; Waheed & Malik, 2019; Waheed & Malik, 2021). Board size is found to be positively related with ROE by (Yasser et al., 2011), with TQ by (Husnain et al., 2021; Waheed & malik, 2019; Waheed & malik, 2021) and with MTB by (Sheikh & Wang, 2011). Board size is negatively related to firm performance by (Akbar et al., 2020). Whereas, Wang (2020) finds it to be insignificant with ROA, ROE, TQ and MTB. The above discussion leads to the following hypothesis;

H1: There is significant impact of board size on firm performance

2.3 Female directors and firm performance

Presence of female directors on corporate board, is considered as an important factor by many researchers in influencing corporate performance positively. Agency theory of Jensen and Meckling (1976) gives the perspective that gender diversity helps in mitigating the agency conflict and resource dependence theory also favors diversity of corporate boards as an important resource which bring diversity of knowledge, skills and experience which could help firms to enhance performance. In the code of corporate governance of 2017 and 2019 in Pakistan, the presence of at least one female directors on corporate boards is emphasized for stock exchange listed companies. Empirically, the results of past studies show varying influence of female directors in context of different developing and developed countries including (Abdullah et al., 2016; Adem & Dsouza, 2024; Al-Matari, 2024; Athar et al., 2023; Chen et al., 2021; Husnain et al., 2021; Okoyeuzu et al., 2021; Wang et al., 2020; Yaseer et al., 2017b).

Al-Matari (2024) finds positive significant impact of presence of female directors on firm performance in Saudi Arabia. Yaseer et al. (2017a) finds that the presence of female directors on board is positively related to firm performance (TQ, ROA). Yasser et al. (2017b) also finds it to significantly positively influencing EPS, TQ and ROA and to ROA and ROE by (Wang et al., 2020). Adem and Dsouza (2024) finds that presence of female directors is not effective in Ethiopia. Whereas Wang et al. (2020) find it to be insignificant with TQ and MTB. On basis of above discussion, following hypothesis is suggested for this research;

H2: There is significant impact of presence of female directors on firm performance

2.4 Outside directors and firm performance

Agency theory favors the presence of outside directors on board because they bring variety of skills and experience which help to reduce agency conflicts by improving board performance and decisions (Shleifer & Vishny, 1997). Resource dependence theory by Donaldson and Davis (1991) also favors the presence of outside directors. Opposite to it, stewardship theory considers the insiders (executive directors) as good alternative because they are more knowledgeable about strengths and weaknesses of firm. The code of corporate governance directs that in listed companies the proportion of executive directors must not exceed $1/3^{rd}$ of total board size. Empirically, numerous researches infer varying results in different countries including (Adem & Dsouza, 2024; Azhar & Mahmood, 2018; Bansal & Singh, 2021; Daily & Dalton, 1992; Hassan et al., 2023; Khan et al., 2021; Makki & Lodhi, 2014; Okoyeuzu et al., 2021; Puni & Anlesinya, 2020; Waheed & Malik, 2019).

Adem and Dsouza (2024) find positive impact of board independence on performance of Ethiopian firms. Whereas, Al-Matari (2024) finds negative significant impact on firm performance in Saudi Arabia. Yasser et al. (2017a) finds that board independence is negatively significantly influencing ROA and positive insignificantly influencing TQ. Yasser et al. (2017b) finds that outside directors on board are insignificantly (negatively) influencing ROA, EPS and insignificantly (positively) influencing TQ. Waheed and Malik (2019) find that board independence negatively influences ROA, TQ and ROE. Outside directs significantly negatively influence Tobin Q in another study in Pakistan by (Waheed & Malik, 2021). On basis of conflicting theoretical and empirical findings, following hypothesis is suggested in this research;

H3: There is significant impact of outside directors on firm performance

2.5 Director ownership and firm performance

Unluckily, formal institutional arrangement and regulations in emerging economies are not as effective as in the developed economies to protect the small shareholders against insider expropriation (Hasan et al., 2023; Waheed & Malik, 2021). It then raises an imperative question – how these developing economies defend the rights of small shareholders in the wake of institutional voids? It signifies the inadequacy of corporate governance mechanisms which prevent firms from performing optimally (Khanna & Palepu, 2010). Jensen and Meckling (1976) in agency theory advocates the concentrated ownership as it can influence the agents in such a way which can lead to lessen agency conflicts. In the emerging economies including Pakistan, family members hold a significant proportion in ownership and directorship of firms and dominate the board decisions (Fatima et al., 2018; Hasan et al., 2023; Waheed & Malik, 2021). Family ownership and directorship can consequent in expropriation of the minority shareholders' rights (Berrone et al., 2020) which results in principal–principal conflicts. Boshnak (2023) in Saudia Arabia finds that family ownership significantly negatively and director ownership significantly positively influence ROA, ROE, TQ and MTB. Hashmi et al. (2018) finds that family ownership has negative moderating influence on earnings in Pakistan. Whereas, Husnain et al. (2021) expose that family-owned firms have high profitability than non-family-owned firms.

Hasan et al. (2023) finds that family board of directors in Pakistan influence significantly negatively ROA, ROE, TQ and market-to-book ratios. Din et al. (2020) and Din et al. (2022) also document that insider ownership significantly positively improves the firm performance in Pakistani manufacturing firms. Yasser et al. (2017a) finds that family directorship negatively impacts Tobin's Q and positively insignificantly impacts ROA and family ownership positively significantly impacts Tobin's Q and negatively insignificantly influences ROA in Pakistan manufacturing companies. In another cross-sectional study by Yasser et al. (2017b), family directorship is negative insignificant and family ownership is positive significant with Tobin's Q. Waheed and Malik (2019) and Javeed et al. (2021) also find significant moderating influence of ownership concentration between CG and FP relationship. Whereas, family directorship positive insignificant and family ownership is negative insignificantly influencing ROA. Boachie et al. (2021) also investigates moderating influence of director ownership in Ghana Banks and find that director ownership negatively influences performance measures.

Yasser et al. (2017a) and Yasser et al. (2017b) show negative relationship of family directorship and family ownership with board size in Pakistan context. Directors' ownership influences to reduce the size of the corporate board (Chen & Al-Najjar, 2012). Waheed and Malik (2019) identify that concentrated ownership negatively moderates the relationship between board size and ROA and ROE which also confirm the expropriation view of controlling family owners (type-II agency problem). Yaseer et al. (2017a) finds that the presence of female directors on board is negatively related with family directorship, family ownership. Gender diversity is negatively related to family directorship and family ownership (Yasser et al., 2017b).

Yaseer et al. (2017a) also finds that outside directors on board are insignificantly negatively related to family directorship and family ownership. Yasser et al. (2017b) finds that outside directors on board are negatively but insignificantly related to family directorship and family ownership. In another study in Pakistan, Waheed and Malik (2019) find that independent directors are negatively related to concentrated ownership. They find that ownership concentration significantly negatively moderates the relationship between independent directors and Tobin Q and positively moderates its relationship with ROA and ROE. Above discussion leads to the formation of following hypothesis;

H4: Director ownership significantly moderates the relationship of board characteristics and firm performance

2.5 Institutional ownership and firm performance

Agency theory favors the presence of institutional ownership because it not only improves the monitoring mechanism on management but also reduces the need of capital markets as external monitoring system (Shleifer & Vishny, 1997). Signaling theory gives positive signal about firm performance in the presence of more institutional ownership. They as external control mechanism

act to reduce firm's agency conflict and need to pay more dividends as a signal of good performance. It not only monitors the management but also plays an effective role in construction of governing body through its voting right. Empirically, large number of studies identify diverse influence of institutional ownership on firm performance and other corporate governance mechanisms including (Akbar et al., 2020; Din et al., 2022; Farooq et al., 2021; Hassan et al., 2023; Ozdemir, 2020; Udin et al., 2017; Waheed & Malik, 2019; Waheed & Malik, 2021; Wang et al., 2020).

Yasser et al. (2017) finds that institutional ownership negatively insignificantly impacts Tobin's Q. Negative relationship is also found with ROE and Tobin Q in another study by (Akbar et al., 2020). Similarly, Wang et al. (2020) also finds ROA, ROE, TQ and market-to-book ratio are significantly negatively influenced by institutional ownership in Pakistan. Din et al. (2022) using GMM analysis technique finds that institutional ownership is significantly and positively influencing ROE and market-to-book ratio. Whereas, in a study in Saudia Arabia by Boshnak (2023), institutional ownership shows insignificant negative relationship with ROA, ROE and Tobin Q.

Considering the institutional ownership, Elyasiani and Jia (2010) find that it influences several corporate governance mechanisms and board decisions including board size (Yermack, 1996). Nkem (2014) in context of developing countries, also identifies that there prevails a negative relationship between board size and institutional ownership. Whereas, Hassan et al. (2023) and Yasser et al. (2017a) find board size to be positively related to institutional ownership. Waheed and Malik (2021) in context of Pakistan also find that higher level of institutional ownership significantly and negatively moderate the relationship between board size and Tobin's Q. Yaseer et al. (2017a) finds that the presence of female directors on board is negatively related with institutional ownership. Opposite to it, presence of female directors is found positively related to institutional ownership by (Wang et al., 2020). Whereas, Yasser et al. (2017b) find it significantly negatively related to institutional ownership.

Yaseer et al. (2017a) finds that outside directors on board are positively significantly related to institutional ownership in Pakistan. Waheed and Malik (2019), in another study in Pakistan, find that independent directors are positively related to institutional ownership. They also find that institutional ownership positively moderates the relationship between independent directors and Tobin Q in Pakistan. Hassan et al. (2023) also finds positive relationship of board independence with institutional ownership in Pakistan. On the basis of above discussion, the study developed hypothesis to test the moderating influence of institutional ownership in case of full sample and the moderating influence of director ownership in case of different levels of institutional ownership. The following hypotheses are thus formulated;

H5: High / low level of institutional ownership significantly improves the moderating effect of director ownership

H6: Institutional ownership significantly moderates the relationship of board characteristics and firm performance

3. METHODOLOGY

This study is based on panel data design. All Pakistan stock exchange (PSX) listed textile companies from 2012 to 2023 are considered as sample of study. Total number of listed textile companies is 139. Textile companies are listed under 6 sectors. 52 companies are listed in textile composite sector. Jute sector has 2 companies. 10 companies are listed in synthetic and rayon sector, 63 companies in textile spinning sector, 11 companies in textile weaving sector and 1 company is listed under Woolen sector. Due to the limited number of listed companies, at initial level all companies are selected as sample. After, excluding default, merged, delisted and incomplete data firms, sample of 858 firm year observations of 75 firms are finally considered for analysis. Secondary data is collected from annual reports of firms, Pakistan stock Exchange (PSX) websites, SBP financial statements analysis reports and company websites.

3.1 Analysis model

Zhou, Faff and Alpert (2014) argue that considering the limitation of time dimension, it is considered that in the panel data researches related to corporate finance the AR (1) panel model is inevitable. In

particular to this study, System generalized method of moment (S-GMM) model in equation (1) is considered appropriate where firm performance (FP) is measured through Tobin' Q and Market-to-book ratio. Econometric model for the research is;

$$FP_{it} = \alpha_0 + \alpha_1 FP_{t-1} + \beta_1 BS_{it} + \beta_2 FD_{it} + \beta_3 OD_{it} + \beta_4 IO_{it} + \beta_5 DOC_{it} + \beta_6 FS_{it} + \beta_7 Lev_{it} + \beta_8 BS*DOC_{it} +$$

$$\beta_9 FD*DOC_{it} + \beta_{10} OD*DOC_{it} + \beta_{11} BS*IO + \beta_{12} FD*IO + \beta_{13} OD*IO + \mu_i + \eta_t + \varepsilon_t \quad \text{(equation 1)}$$

In the above equation, firm performance (FP) is measured through TQ and MTB. Tobin's Q (TQ) is the "book value of debt plus market value of common stock divided by the book value of assets". MTB is "ratio of market value of share to book value of share of common stock equity". Board size (BS) is the number of directors on board. Presence of female directors (FD) is taken as dummy variable assuming value of 1 if female directors are present on board otherwise 0. Outside directors on board (OD) is the ratio of sum of non-executive and independent directors divided by board size. Institutional ownership (IO) is measured as the shares owned by institutional shareholders. Director ownership (DOC) is measured as the ratio of shares owned by directors and family divided by total number of outstanding shares. Log of sales (LS) is measured as log of net sales. Leverage (Lev) is measured as ratio of total debt to total assets.

4. DATA ANALYSIS

4.1 Descriptive statistics

The descriptive statistics are tabulated after winsorization of certain variables to treat the outliers. Dependent variables are winsorized at (5 95), leverage and OD ratio at (1 99). TQ mean value is 0.7907 with SD of 0.2277. MTB mean value is 0.5405. Minimum board size is 6 and the maximum BS is 11 with the mean board size of 7.667. Female director (FD) has mean value of 0.6444. Outside directors show mean value of 0.7027 which indicates the maximum presence of outside directors. IO mean value is 0.0667 and SD is 0.0629 with minimum of 0 value and maximum of 0.3273. Mean value of 6.67 shows that there is large IO in textile companies as stated by (Waheed and Malik, 2019) that ownership more than 5 % is considered large ownership. Director ownership (DOC) shows mean value of 0.4524 with SD of 0.2717. The minimum value is 0.0095 and the maximum value is 0.9100. Mean value of 45.24% shows that the firms in textile sector have concentrated ownership of directors and family on average. In case of control variables, firm size logged mean value is 22.2671. Leverage shows the mean of 0.5495 with SD of 0.2194.

Table 1: Descriptive statistics

Variables	Obs.	Mean	S.D.	Minimum	Maximum
TQ	876	0.7907	0.2277	0.409	1.3093
MTB	876	0.5405	0.4051	0.062	1.595
BS	883	7.667	1.0091	6	11
FD	883	0.6444	0.479	0	1
OD	883	0.7027	0.1279	0.2857	0.9
IO	883	0.0667	0.0629	0	0.3211
DOC	883	0.4524	0.2718	0.0095	0.91
LS	883	22.2672	1.6158	14.3751	25.9896
Lev	865	0.5495	0.2195	0.0325	1.3544

4.2 Correlation analysis and multicollinearity

In table 2, Correlation matrix shows the relationship of TQ and MTB with CG variables. Board size is positively related whereas female directors and outside directors are negatively related with TQ and MTB. Director ownership and IO are positively related with TQ and MTB. Firm size and leverage are positively related with TQ and MTB. However, it indicates that there is no problem of multi-collinearity, because all the values of correlation coefficient are below the threshold of 0.80 and the VIF values of each independent variable is also below 5 as suggested by Gujarati (2009).

Table 2: Variance inflation factor (VIF) and correlation matrix

	VIF	TQ	MTB	BS	FD	OD	IO	DOC	LS	Lev
TQ		1								
MTB		0.4138	1							
BS	1.12	0.0034	0.0647	1						
FD	1.09	-0.1378	-0.1396	0.0316	1					
OD	1.29	-0.0585	0.0142	0.1619	0.1135	1				
IO	1.29	0.004	0.0291	-0.0328	-0.1704	0.0706	1			
DOC	1.31	0.0278	-0.0228	0.0088	0.0864	-0.2341	-0.4051	1		
LS	1.16	0.0799	0.1298	0.2394	-0.0561	0.0805	0.2009	-0.137	1	
Lev	1.06	0.5991	-0.0659	-0.1464	-0.0012	-0.0913	0.0654	-0.0228	0.0714	1

Table 3: Fixed effect regression and generalized method of moment- Baseline model

	FE	GMM	FE	GMM
Variable	**TQ**	**TQ**	**MTB**	**MTB**
L.TQ/		0.684***		0.501***
L.MTB		(0.0852)		(0.0382)
BS	-0.0052	0.0340***	-0.0191	0.0385
	(0.0076)	(0.0101)	(0.0189)	(0.0339)
FD	0.0334**	0.125*	0.0661*	0.220**
	(0.0147)	(0.0647)	(0.0365)	(0.106)
OD	-0.0209	-0.0783	-0.000391	-0.344**
	(0.0486)	(0.0589)	(0.12)	(0.166)
LS	-0.0420***	-0.0139***	-0.0995***	-0.0170*
	(0.0089)	(0.0041)	(0.0221)	(0.0096)
Lev	0.648***	0.303***	0.0965	0.0005
	(0.0337)	(0.0479)	(0.0835)	(0.0784)
Constant	1.316***	0.176*	2.593***	0.588**
	(0.198)	(0.0919)	(0.49)	(0.233)
Observations	858	780	858	780
R-squared	0.403		0.147	
No. of firms	75	75	75	75
Year effect	Yes	Yes	Yes	Yes
Firm effect	Yes	Yes	Yes	Yes
Arellano-Bond test for AR 1		z = - 4.59 Pr>z =0.000		z = - 2.27 Pr>z =0.023
Arellano-Bond test for AR 2		z = 1.17 Pr>z =0.240		z = -0.15 Pr>z =0.878
Hansen test of overid. Restrictions		chi2(18) = 19.98 Pr>chi2 = 0.334		chi2(25) = 29.21 Pr>chi2 = 0.255

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 4: Fixed effect regression (moderating effect of directors' ownership in Full sample)

	Model-5	Model-6	Model-7	Model-8	Model-9	Model-10
Variable	**TQ**	**MTB**	**TQ**	**MTB**	**TQ**	**MTB**
BS	-0.0333**	-0.0386	-0.00385	-0.0168	-0.00426	-0.0171
	(0.0135)	(0.0339)	(0.0076)	(0.0189)	(0.0076)	(0.0189)
FD	0.0283*	0.0543	0.0478**	0.08	0.0239	0.0521
	(0.0148)	(0.0369)	(0.0237)	(0.0591)	(0.0148)	(0.0369)
OD	-0.0072	0.0256	-0.0060	0.0277	0.0749	0.0125
	(0.0481)	(0.12)	(0.0483)	(0.121)	(0.0922)	(0.23)
IO	-0.467***	-0.906**	-0.450***	-0.893**	-0.440***	-0.894**
	(0.143)	(0.357)	(0.143)	(0.357)	(0.144)	(0.358)
DOC	-0.635***	-0.57	-0.0927**	-0.159	-0.00481	-0.208
	(0.203)	(0.508)	(0.0465)	(0.116)	(0.115)	(0.286)
BS*DOC	0.0682***	0.0502				
	(0.0263)	(0.0657)				
FD*DOC			-0.057	-0.0705		
			(0.0466)	(0.116)		
OD*DOC					-0.158	0.023
					(0.148)	(0.37)
LS	-0.0386***	-0.0942***	-0.0394***	-0.0948***	-0.0398***	-0.0947***
	(0.0088)	(0.0221)	(0.0088)	(0.022)	(0.0089)	(0.0221)
Lev	0.648***	0.102	0.650***	0.104	0.646***	0.104
	(0.0335)	(0.0837)	(0.0336)	(0.0837)	(0.0337)	(0.0841)
Constant	1.543***	2.781***	1.327***	2.616***	1.290***	2.638***
	(0.211)	(0.527)	(0.196)	(0.489)	(0.201)	(0.502)
Observations	858	858	858	858	858	858
No. of firms	75	75	75	75	75	75
R-squared	0.421	0.157	0.417	0.157	0.417	0.157

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 5: Fixed effect regression - moderating effect of directors' ownership in sub-sample with high institutional ownership (higher than 5% IO)

	Model-11	Model-12	Model-13	Model-14	Model-15	Model-16
Variable	**TQ**	**MTB**	**TQ**	**MTB**	**TQ**	**MTB**
BS	-0.00506	0.0282	0.00143	0.0143	0.00157	0.0143
	(0.0155)	(0.0795)	(0.00984)	(0.0504)	(0.00981)	(0.0503)
FD	0.0238	0.0209	0.000961	-0.0240	0.0204	0.0174
	(0.0192)	(0.0983)	(0.0290)	(0.149)	(0.0190)	(0.0974)
OD	-0.0631	-0.111	-0.0602	-0.101	0.0863	0.397
	(0.0680)	(0.348)	(0.0680)	(0.349)	(0.121)	(0.620)
IO	-0.714***	-3.636***	-0.709***	-3.632***	-0.680***	-3.529***
	(0.177)	(0.908)	(0.177)	(0.908)	(0.178)	(0.914)
DOC	-0.210	-0.137	-0.0711	-0.472	0.199	0.419
	(0.282)	(1.444)	(0.0719)	(0.368)	(0.182)	(0.932)
BS*DOC	0.0197	-0.0369				
	(0.0343)	(0.176)				
FD*DOC			0.0582	0.130		
			(0.0599)	(0.307)		

OD*DOC					-0.352	-1.186
					(0.234)	(1.202)
LS	-0.0220	-0.0125	-0.0203	-0.0130	-0.0194	-0.00943
	(0.0183)	(0.0938)	(0.0182)	(0.0934)	(0.0182)	(0.0933)
Lev	0.683***	0.545**	0.690***	0.545**	0.681***	0.519**
	(0.0491)	(0.252)	(0.0489)	(0.250)	(0.0488)	(0.250)
Constant	1.040**	0.936	0.952**	1.064	0.818**	0.602
	(0.426)	(2.180)	(0.403)	(2.063)	(0.413)	(2.118)
Observations	446	446	446	446	446	446
No. of firms	51	51	51	51	51	51
R-squared	0.447	0.095	0.448	0.095	0.449	0.097

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 6: Fixed effect regression - moderating effect of directors' ownership in sub-sample with low institutional ownership (less than 5% IO)

	Model-17	**Model-18**	**Model-19**	**Model-20**	**Model-21**	**Model-22**
Variables	**TQ**	**MTB**	**TQ**	**MTB**	**TQ**	**MTB**
BS	-0.0886***	-0.236*	-0.0243*	-0.133**	-0.0243*	-0.129**
	(0.0286)	(0.142)	(0.0128)	(0.0631)	(0.0129)	(0.0632)
FD	0.0355	0.0874	0.117***	0.403*	0.0290	0.0866
	(0.0238)	(0.118)	(0.0443)	(0.218)	(0.0239)	(0.117)
OD	0.0418	-0.139	0.0629	-0.0682	0.127	-1.200
	(0.0745)	(0.369)	(0.0750)	(0.369)	(0.167)	(0.816)
IO	0.140	9.452	0.142	9.896	-0.0691	9.137
	(1.272)	(6.298)	(1.275)	(6.278)	(1.281)	(6.272)
DOC	-1.120***	-1.373	-0.0832	0.520	-0.100	-1.063
	(0.374)	(1.849)	(0.0730)	(0.360)	(0.175)	(0.855)
BS*DOC	0.126**	0.203				
	(0.0501)	(0.248)				
FD*DOC			-0.191**	-0.708*		
			(0.0815)	(0.401)		
OD*DOC					-0.127	1.660
					(0.231)	(1.133)
LS	-0.0385***	-0.189***	-0.0399***	-0.187***	-0.0417***	-0.192***
	(0.0108)	(0.0535)	(0.0108)	(0.0531)	(0.0108)	(0.0531)
Lev	0.659***	-0.509**	0.663***	-0.503**	0.659***	-0.442*
	(0.0500)	(0.248)	(0.0501)	(0.247)	(0.0511)	(0.250)
Constant	1.898***	6.014***	1.395***	5.006***	1.438***	6.019***
	(0.288)	(1.426)	(0.242)	(1.190)	(0.257)	(1.260)
Observations	412	412	412	412	412	412
No of firms	51	51	51	51	51	51
R-squared	0.443	0.151	0.442	0.157	0.433	0.154

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 7: Fixed effect regression - moderating effect of directors' ownership in sub-sample with high institutional ownership (higher than average value of IO)

	Model-23	**Model-24**	**Model-25**	**Model-26**	**Model-27**	**Model-28**
Variables	**TQ**	**MTB**	**TQ**	**MTB**	**TQ**	**MTB**
BS	0.00622	0.0841	0.00520	0.0300	0.00405	0.0272

	(0.0185)	(0.109)	(0.0115)	(0.0682)	(0.0114)	(0.0680)
FD	0.00421	-0.0148	0.0260	0.0199	0.00334	-0.00952
	(0.0202)	(0.120)	(0.0307)	(0.182)	(0.0200)	(0.119)
OD	0.0437	0.382	0.0412	0.381	0.220*	1.049
	(0.0787)	(0.466)	(0.0786)	(0.466)	(0.127)	(0.758)
IO	-0.921***	-4.627***	-0.924***	-4.633***	-0.884***	-4.487***
	(0.185)	(1.094)	(0.185)	(1.095)	(0.185)	(1.100)
DOC	0.125	1.130	0.115	-0.0450	0.394**	1.075
	(0.329)	(1.948)	(0.0875)	(0.519)	(0.193)	(1.144)
BS*DOC	-0.00447	-0.152				
	(0.0403)	(0.238)				
FD*DOC			-0.0602	-0.0701		
			(0.0650)	(0.386)		
OD*DOC					-0.419*	-1.588
					(0.240)	(1.426)
LS	-0.0268	-0.0297	-0.0282	-0.0412	-0.0266	-0.0381
	(0.0184)	(0.109)	(0.0182)	(0.108)	(0.0181)	(0.108)
Lev	0.698***	0.521*	0.694***	0.504*	0.687***	0.470
	(0.0504)	(0.298)	(0.0503)	(0.299)	(0.0504)	(0.299)
Constant	1.003**	0.758	1.036**	1.430	0.883**	0.886
	(0.443)	(2.622)	(0.407)	(2.416)	(0.413)	(2.455)
Observations	351	351	351	351	351	351
No. of firms	43	43	43	43	43	43
R-squared	0.508	0.103	0.509	0.102	0.513	0.106

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 8: Fixed effect regression - moderating effect of directors' ownership in sub-sample with low institutional ownership (less than average value of IO)

	Model-29	**Model-30**	**Model-31**	**Model-32**	**Model-33**	**Model-34**
Variables	**TQ**	**MTB**	**TQ**	**MTB**	**TQ**	**MTB**
BS	-0.0514**	-0.122	-0.0156		-0.0149	-0.0887*
	(0.0209)	(0.0951)	(0.0110)		(0.0110)	(0.0495)
FD	0.0317	0.0481	0.0657*	0.243	0.0270	0.0599
	(0.0218)	(0.0992)	(0.0394)	(0.178)	(0.0219)	(0.0988)
OD	-0.0270	-0.143	-0.0228	-0.117	0.0195	-1.281*
	(0.0656)	(0.298)	(0.0659)	(0.298)	(0.148)	(0.667)
IO	-0.875	3.921	-0.829	4.205	-0.875	3.664
	(0.769)	(3.494)	(0.773)	(3.495)	(0.773)	(3.483)
DOC	-0.764***	-0.304	-0.140**	0.432	-0.126	-1.144
	(0.289)	(1.312)	(0.0652)	(0.295)	(0.167)	(0.751)
BS*DOC	0.0778**	0.0685				
	(0.0379)	(0.172)				
FD*DOC			-0.0824	-0.431		
			(0.0711)	(0.321)		
OD*DOC					-0.0784	1.880*
					(0.219)	(0.988)
LS	-0.0347***	-0.160***	-0.0363***	-0.158***	-0.0371***	-0.160***
	(0.0109)	(0.0496)	(0.0109)	(0.0493)	(0.0109)	(0.0491)
Lev	0.627***	-0.623***	0.634***	-0.610***	0.630***	-0.553**
	(0.0478)	(0.217)	(0.0479)	(0.217)	(0.0485)	(0.219)
Constant	1.623***	4.759***	1.362***	4.378***	1.366***	5.297***
	(0.262)	(1.191)	(0.240)	(1.087)	(0.254)	(1.144)
Observations	507	507	507	507	507	507
No. of firms	57	57	57	57	57	57
R-squared	0.406	0.127	0.402	0.131	0.400	0.134

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 9: Fixed effect regression (moderating effect of institutional ownership)

	Model-35	Model-36	Model-37	Model-38	Model-39	Model-40
Variable	**TQ**	**MTB**	**TQ**	**MTB**	**TQ**	**MTB**
BS	0.0090	-0.0197	-0.0045	-0.0191	-0.0040	-0.0176
	(0.01)	(0.025)	(0.0076)	(0.0189)	(0.0076)	(0.0189)
FD	0.0282*	0.0513	0.015	-0.0027	0.0254*	0.0481
	(0.0148)	(0.037)	(0.0195)	(0.0484)	(0.0148)	(0.0368)
OD	-0.0144	0.0258	-0.0098	0.0176	0.0026	-0.112
	(0.0483)	(0.121)	(0.0484)	(0.12)	(0.0582)	(0.145)
DOC	-0.113***	-0.192*	-0.122***	-0.208**	-0.120***	-0.179*
	(0.0414)	(0.103)	(0.0416)	(0.104)	(0.0415)	(0.103)
IO	0.955	-1.166	-0.494***	-1.129***	-0.333	-2.333**
	(0.715)	(1.786)	(0.153)	(0.382)	(0.37)	(0.921)
BS*IO	-0.187**	0.0364				
	(0.0935)	(0.233)				
FD*IO			0.128	0.686*		
			(0.159)	(0.396)		
OD*IO					-0.186	2.280*
					(0.541)	(1.344)
LS	-0.0395***	-0.0948***	-0.0400***	-0.0984***	-0.0391***	-0.0979***
	(0.0088)	(0.022)	(0.0089)	(0.0221)	(0.0088)	(0.0221)
Lev	0.646***	0.104	0.649***	0.099	0.651***	0.0862
	(0.0336)	(0.0838)	(0.0336)	(0.0835)	(0.0338)	(0.0841)
Constant	1.245***	2.649***	1.364***	2.764***	1.326***	2.789***
	(0.201)	(0.502)	(0.199)	(0.494)	(0.2)	(0.497)
Observation	858	858	858	858	858	858
No. of firms	75	75	75	75	75	75
R-squared	0.419	0.157	0.417	0.16	0.416	0.16

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

4.3 Findings and discussion

Table-3 shows the results of fixed effect method and system GMM for baseline model. TQ is used as measure of firm performance. To check the robustness of TQ results, this study replaces the dependent variable of TQ with MTB to assess the consistency of results. The results of TQ and MTB show consistency in findings and most results favor the agency theory postulates. Table-3, shows baseline model of the direct impact of board characteristics on TQ. Board size is insignificantly influencing TQ which is consistent with the researches of (Akbar et al., 2020; Nguyen et al., 2014). However, GMM analysis identifies positive significant influence of BS on TQ. The significant influence accepts H1 hypothesis and is consistent with the research of (Husnain et al., 2021; Waheed & malik, 2021). Presence of female directors is showing positive significant impact on TQ by using fixed effect and GMM and on MTB using FE model which is consistent with the findings of (Husnain et al., 2021; Yaseer et al., 2017a) in Pakistan and favors agency theory and resource dependence theory. This significant impact accepts H2 hypothesis. OD is negative and insignificantly using TQ and MTB which follows Stewardship theory perspective and highlights the dominance of inside directors and passive

role of outside directors. However, OD is significantly negatively influencing firm performance by using GMM in case of MTB ratio. It also confirms H3 hypothesis. In case of control variables, Firm size has significant negative impact with TQ and MTB at 1 percent level which shows that large sized firms are not efficiently managing their businesses. Leverage is found to have significant positive impact on TQ and MTB. Control variables' results are consistent with the findings of (Waheed & Malik, 2021).

In table-4, moderating analysis of director ownership (DOC) with TQ and MTB is shown in case of full sample. DOC significantly and positively moderates the relationship between board size and TQ. It accepts H4 hypothesis on basis of coefficient (0.0682***) and standard error of (0.0263). It shows that DOC significantly encourages larger boards and follow resource-dependence theory perspective. In case of female directors and outside directors, the moderating influence of director ownership is insignificant in this study.

In table-5 and table-6, moderating analysis of director ownership (DOC) with TQ and MTB is shown in case of subsample of data on basis of 5% IO. In table-7 and table-8, moderating analysis of DOC with TQ and MTB is shown in case of subsample of data on basis of average value of IO. The subsample-based study is also performed by (Akbar et al., 2020). The subsample analysis in this study shows that high and low level of IO also improves the moderating influence of DOC between board characteristics and FP and accepts H5 hypothesis. Table-6 shows that in case of lesser than 5% IO, DOC significantly encourages larger boards and follow resource-dependence theory perspective. DOC also discourages significantly the presence of female directors in case of low level of IO. Table-7 shows that DOC significantly negatively moderates between OD and TQ in case of higher IO on basis of average value. It shows that DOC discourages the outside directors on board. Table-8 shows the significant positive moderating influence of DOC with board size and outside directors. The significant moderating influence shows that subsampling on basis of IO improves the moderating influence of DOC with board size, female directors and outside directors.

In table-9, moderating influence of IO between board characteristics and TQ and moderating influence of IO in relationship between board characteristics and MTB is shown in case of full sample. IO has significant negative moderating influence on relationship between board size and TQ at 5%. It accepts H4 on basis of coefficient (-0.187**) and standard error (0.0935) and accepts the agency theory perspective that IO discourages larger boards. IO also encourages the presence of female directors as it has positive significant moderating influence on relationship between female directors and MTB at 10 percent level of significance. The moderating influence of IO with outside directors' ratio is positive significant at 10 % level with MTB. The significant moderating influence accepts H6 hypothesis for board structure related variables including board size, female directors and outside directors) in Pakistan textile sector and indicates that IO is an important external control mechanism because IO is 6.38% on average and owned by different institutional groups. The moderating role of institutional ownership in case of full sample is also favoring the agency theory perspective.

5. CONCLUSION

This study attempts to explain the contradictory previous findings in the light of contemporary theories including agency theory, resource dependence theory, and stewardship theory specifically focusing the most prominent textile manufacturing sector of Pakistan. Agency theory by Jensen and Meckling (1976) is the most prominent CG theory in corporate finance literature which emphasizes on agency problem. Agency theory favors smaller boards, presence of female directors and outside directors on board. Resource dependence theory by Donaldson and Davis (1991) works on the concept that directors act as an important resource of firm due to diverse knowledge, skills, experience and abilities and this theory favors larger boards, presence of female directors and outside directors in corporate boards. Contrary to it, stewardship theory proponents prefer executive directors over non-executive directors because they consider executive directors as more knowledgeable about firm and its business.

In general, it is found that the textile companies of Pakistan are dominated by directors and family ownership which has strong influence on corporate performance due to the vesting interests of concentrated ownership. The internal control in form of director ownership and external control in form of institutional ownership influence the relationship between board characteristics including board size, female directors and outside directors and long run firm performance. In general, all

hypothesis including H1, H2, H3, H4 H5 and H6 are accepted in this research. Furthermore, it is also observed that certain board characteristics favor the concepts of agency theory and certain other hold the view of resource-dependence theory and stewardship theory. The agency theory perspective is dominant as compared to other theories of corporate governance. However, there is an immense need to design a comprehensive legislation for ownership structure for listed as well as non-listed companies in Pakistan so that type-I and type-II agency conflicts can be mitigated.

This study is contributing to the existing frame of literature. Firstly, it re-examines the direct impact of board characteristics on FP. CG theories which are favored in direct relationships are also analyzed. Secondly, it identifies the moderating influence of internal control structure (director ownership). Thirdly, it identifies the moderating influence of external control structure (institutional ownership). Fourthly, the study identifies the theories which are favored in direct impact of corporate governance on firm performance and in moderation analysis. Fifthly, study analyses the moderating influence of director ownership in case of subsamples of data by dividing data into subsamples on basis of high and low institutional ownership. Lastly, study employs dynamic system GMM to address panel data problems. The researcher draws recommendations for policy makers, Government, textile companies, SECP, financial institutions and other stakeholders.

On basis of findings of this study, it is considered that there must be provisions in codes of CG for the inclusion of demographic information of all directors regarding their age, origin, religion, relation with board director, qualification and experience criteria and must be disclosed in annual reports. Government must develop legislation for institutional owners for their effective role as external control mechanism. Because it is evidenced from the findings of this study that high and low levels of institutional ownership also improve the moderating influence of director ownership on board characteristics – firm performance relationship. SECP must establish CG rules for qualification and experience of audit committee members. This research also helps Pakistani policy makers in numerous ways. First, the current study confirms the moderating influence of director ownership and institutional ownership in textile firms of Pakistan. SECP should establish policies to protect the corporate board and minority owners against the influence of concentrated director ownership. Second, SECP should ensure that all the listed firms declare a comprehensive profile of their directors (such as academic qualification, age and experience) in annual reports for the better understanding of the governance-performance mechanism. The regulatory authorities must establish proper legislation for institutional owners as they are identified to be the influential CG component in this research.

Study is performed at only one manufacturing sector and sample size is small. Only market-based measures of FP are used as dependent variable. Limited number of variables of corporate governance are included. Many CG variables can be taken as moderators but the current study uses only ownership structure. Considering the limitations, the future researchers are invited to test critical mass theory for presence of female directors. Some other measures can be used for family ownership and family directorship. Researcher also raises the future call to replicate this study on the other top performing manufacturing sectors of Pakistan including sugar industry, pharmaceutical industry, cement industry and automobile industry in order to identify the role of ownership structure in other top performing sectors of economy. Textile sector performance can also be compared with other top textile exporting countries. Diversity related other components must also be included in new researches with different measures of firm performance.

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