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EFFECT OF CORPORATE GOVERNANCE ON FIRM FINANCIAL PERFORMANCE: EVIDENCE FROM THE OIL AND GAS SECTOR OF PAKISTAN

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Abstract

The investigation of the relationship between corporate governance (CG) and the financial performance of firms has long been a topic of controversy, particularly in emerging economies that are still developing their institutional frameworks. The research proposes to investigate the overall impact of CG on financial performance, the independent contributions of the effects of board characteristics and audit committee characteristics, and the moderators of the role of firm-specific factor contributions. In this research, ten oil and gas companies listed on the Pakistan Stock Exchange were under consideration with 52 firm-year observations. Secondary data were extracted from annual reports and financial statements, and financial performance was calculated using the return on assets (ROA), return on equity (ROE), and profit margin (PM) ratios. Panel data regression was used to evaluate the hypotheses. The findings indicated that the independence of audit committees, the frequency of board directors' meetings, and the fact that audit committees met significantly positively influenced ROA and PM. There was also a positive relationship between CEO duality, although board size and board independence remained insignificant. The control variables had a strong impact, including firm size and leverage. This paper suggests that it is necessary to reinforce control over systems, improve the effectiveness of boards, and tailor governance changes with due respect to Pakistan's industrial environment.

Keywords: Corporate Governance (CG), Corporate Stakes, Firm Performance (FP), Oil & Gas Sector.

Introduction

Corporate governance is a mechanism that enables stakeholders and corporate stakeholders (Zhang et al.). Corporate Governance (CG) is a system that directs and systematically controls corporate entities to achieve organisational goals. (Makpotche et al., 2024). Investors, corporations, and governments have identified the importance of corporate governance in competing both locally and internationally. It is currently acknowledged as a distinct business sector that supports economic expansion and preserves and enhances investor trust. Researchers employ various corporate

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governance measures, such as boards, compensation, and ownership structures, individually or in combination, to assess how these measures impact the financial performance of corporate entities. Variables, such as risk, cash flow, and regulation, are also evaluated to determine their impact on firm performance. (Koskinen et al., 2024).

Firm performance is frequently used as a dependent variable in scientific research and represents the overall indicators of a company's success and well-being. Thus, firm performance includes three main dimensions: financial, market, and investor performance. (Aifuwa 2020). Financial performance refers to a company's economic stability and ability to generate profits, attract new investors, and facilitate higher dividends. To evaluate the impact of different CG measures on FP, researchers have examined boards, compensation, and ownership structures, separately or collectively. (Koskinen et al., 2024; Nasrallah & El Khoury, 2022). Robust corporate governance has significant economic implications, including attracting investment, improving financial performance, and reducing agency costs and risks. Firm performance is an organisation's capacity to attain its objectives, including financial returns, market share, and shareholder value. (Ajao & Ejokehuma, 2020).

Financial ratios serve as important benchmarks for measuring an organisation's financial performance, facilitating quantitative assessments and simplifying complex financial information. Manan and Amin (2023) Operationalised firm financial performance using metrics such as return on equity (ROE), return on assets (ROA), and earnings per share (EPS). A significant volume of scholarly work has focused on examining the impact of corporate governance on target financial achievements, utilising targeted sectors, different research methods, and locales (Ullah et al., 2018; Ullah et al., 2019). Hence, this study extends to the corporate governance-financial performance nexus across different national (India, Indonesia, Iraq, Malaysia, Kenya, Pakistan, and the United States) and economic sectors, utilising various analytical approaches while recognising that many contradictory results characterise the existing literature. (Albart et al., 2020).

Prior studies have demonstrated that effective corporate governance practices are essential for preserving the rights of all stakeholders, enhancing the investment climate, and improving firm performance. (Ullah et al. 2019). This study aims to fill this gap by examining the impact of corporate governance (CG) on firm performance in Pakistani listed firms following the implementation of the 2008 Governance Law. Although several empirical studies have proposed that CG structural intensity increases firm performance, this study partially supports these findings. This investigation sheds light on the effects of individual CG elements on firm performance, informing a broader discussion on how CG affects corporate decision-making.

Rationale

Corporate governance (CG) has established itself as a crucial pillar of corporate sustainability and competitiveness, particularly in developing markets where formal institutional arrangements are in the process of formation. The presence of sound governance practices, including the independence of the board, the effectiveness of the audit committee, and the separation of the CEO and the chair, is a necessary feature for reducing agency conflicts, safeguarding shareholder rights, and achieving

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Volume 4, Issue 1, Page 89-109

better financial results (Hasan et al., 2023). In Pakistan, where the capital market is still in its infancy and investor confidence is weak, corporate governance plays a crucial role in the performance of firms (Farooq et al., 2022). Since the oil and gas sector is an economically important sector that plays a significant role in the Gross Domestic Product (GDP) and energy security of Pakistan, it is desirable to explore the impact of governance structure on the financial performance indicators, namely the return on assets (ROA), return on equity (ROE) and profit margin. The research can be of use to policymakers, investors, and regulators in improving governance codes and enhancing long-term financial sustainability.

Problem Statement

Although the world largely agrees on the relationship between corporate governance and firm performance, empirical evidence remains inconclusive and situation specific. Results describing the correlation between governance mechanisms and firm profitability are quite divergent in developed economies, and often, a positive relationship is observed. In contrast, findings in emerging markets are inconclusive and sometimes inconsistent (Alshdaifat et al., 2024; Bui & Krajcsak, 2024). In Pakistan, a past study has found positive and non-significant results of governance practices on firm performance (Ullah et al., 2019). This uncertainty raises the possibility that contextual factors, such as regulatory activity, concentration of ownership, and firm-specific attributes, may determine the relations between governance environment and performance. The role of governance in the oil and gas sector, which is large, capital-intensive, and strategically important under a post-2019 regulatory environment, remains largely unexplored. Therefore, there lies an urgent need to explore the effects of select attributes of governance on the performance of firms, particularly in terms of the factors that act as moderators, such as the size, age, and leverage of a firm.

Research Questions

1. How does the overall effect of corporate governance mechanisms work on the financial performance of the oil and gas companies listed on the Pakistan Stock Exchange?

2. What is the effect of the individual governance attributes, such as board size, board independence, board meetings, audit committee independence, audit committee meetings or CEO duality, on firm financial performance (ROA, ROE, and profit margin)?

3. Are firm-specific control variables (size, leverage, and age) moderators of corporate governance mechanism-financial performance relationships?

Research Objectives

This study's importance may contribute to the literature by providing a deeper understanding of how CG mechanisms impact corporate performance in specific regulatory contexts. A sample of ten major Pakistani oil and gas sectors was collected from the Pakistan Stock Exchange to accomplish the stated objective.

- To examine the overall effect of corporate governance practices on the financial performance of oil and gas companies listed on the Pakistan Stock Exchange from 2019 to 2023.

- To analyse the individual impacts of specific corporate governance mechanisms separately (Board Independence, Board Meetings, Board size, Audit Committee Independence, Audit Committee Meetings and CEO Duality) on firm performance measures (ROA, ROE, and Profit Margin).

- To check the moderating impact of control variables (firm age, size, and leverage) on the relationship between corporate governance (CG) mechanisms and firms' financial performance.

This study collected data from ten companies in Pakistan's oil and gas sector, obtained from the Pakistan Stock Exchange between 2019 and 2023. This finding suggests that corporate governance has a positive impact on the performance of Pakistani companies. Additionally, all control variables have a significant impact on firm performance. Furthermore, it uses the status of inappropriate profits and reserves as a predictor of the top sectors in Pakistan. However, this time, it only capitalised on companies listed on the Pakistan Stock Exchange. The study is framed with a discussion of the effect of corporate governance variables and the moderating effect of control variables on firms' financial performance, followed by the research methodology, results, discussion, and finally, the conclusion, limitations, and suggestions for future research.

Theoretical Framework

It is based on the Agency Theory (Jensen & Meckling, 1976) as the conflict between managers (agents) and shareholders (principals) may cause morbidity and under-performance of firms. Agency costs can be mitigated through the implementation of corporate governance mechanisms, such as independent boards and active audit committees, whose primary task is to align managerial actions with the interests of shareholders (Koskinen et al., 2024). Additionally, Resource Dependence Theory (Pfeffer & Salancik, 1978) provides a similar insight, suggesting that larger and more diverse boards can facilitate the establishment of key external linkages, expertise, and resources, thereby enhancing firm performance. The interplay of these theoretical lenses reveals the dual role of governance structures: alleviating agency conflicts and providing the necessary strategic resources to maintain profitability and growth. A synthesis of these views will give the study a comprehensive insight into the role that governance mechanisms play in determining financial performance within the oil and gas industry in Pakistan.

Significance of the study

The significance of the study is that it identifies and compares differences and similarities between strong and weak linkages among children: how they form working linkages with one another, how they move in their linkages with one another, how they work in their linkages with one another, how they operate in their linkages with one another, how they live in their linkages with one another, and how they do not live in their linkages with one another.

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Volume 4, Issue 1, Page 89-109

Literature Review

Corporate Governance and Firm Performance

Numerous researchers have examined the association between corporate governance systems and firms' financial performance (Anlesinya, 2020; Aljabri, 2024). Corporate governance practices have undergone significant changes due to several global issues, including financial crises, privatisation, and the transformation of financial institutions. In a corporate-intended system, effective control over an organisation's operations is one of the most important gateways to success. Companies adhering to good governance practices can, in theory, enhance their reputation with the public, reduce fraud risks, and be viewed favourably by investors (. Corporate governance studies are structured around the size and independence of the board, board effectiveness, audit committee composition, ownership structure, and leadership configuration. (Hasan et al., 2023). This nuanced perspective on corporate governance highlights its potential significance in shaping firm performance, particularly in times of economic uncertainty.

Corporate governance frameworks strongly influence firms' FP. There are several methods for measuring an organisation's financial health and performance. These vital indicators include ROA, NAV, and ROE. (Cheema and Din 2013; Willim 2015). A significant study of the association between corporate governance prices and monetary measures of performance, such as ROA, ROE, and EPS (Aljabri, 2024). The results of their study suggest a significant positive relationship between these factors and, according to their findings, highlight the significance of effective governance in determining financial performance.

Characteristics of Variables

Firm Performance (FP): The organisation's performance in terms of ROA, ROE, and PM, similar to Boshnak et al. (2023). ROA, ROE, and PM are designed to broadly evaluate a company's profitability and measure the quality of its earnings.

Return on equity (ROE): ROE is the ratio that compares the net profit and the share of equity of a company. This is often used as a proxy for profit in many cases. Another scholar argued that ROE could also indicate a company's profitability.(Kumalasari & Pratikto, 2018; Williams, 2022).

Return on assets (ROA): ROA measures a company's leadership and its ability to generate earnings from its assets. Kang and Stulz (1997) Also, investors believe that a firm benefits from earning a return on an asset investment. Prospective investors prefer companies with high ROA because they show that companies use their assets effectively. Return on assets is the second component of measuring corporate performance, as provided by (Gonzalez-Hermosillo et al., 1997; Rostami et al., 2016)

Profit Margin (PM): The profit margin ratio, a key metric of profitability, indicates the percentage of profit a company earns after deducting net income and income taxes. Understanding and analysing this metric is crucial for evaluating the performance of financial firms.(Otekunrin et al., 2024).

Corporate Governance Variables

Board independence has been found to have a direct link to improved financial firm performance, as well as value accretion for shareholders. The efforts of several researchers, including those who support this view, lend credence to it. Bonn (2004) and Subrahmanyam et al. (1997). However, existing literature presents different perspectives. Some academic studies have found a negative relationship between the presence of independent board members and company performance. Examples include the studies undertaken by Agrawal and Knoeber (1996). This further complicates the study. In a third set of investigations, Fosberg (1989) Found no significant association between these two constructs. The heterogeneity of the results, which underscores their contextual influences, demonstrates the complexity of this study, reflecting the importance of considering broader and previously unconsidered contextual factors. Independence of the board and its connection with governance: The independence of the purge from within shaping companies' governance and performance is widely recognised. Hasan et al. (2023) Additionally, a positive association is found between board independence and financial performance. Thus, we propose the following hypotheses:

H_1: There is a positive relationship between board independence and firm performance.

According to Kalsie and Shrivastav (2016)The significant impact of CEOs on strategy decisions was also noted by Reid, who suggested that it could create conflicts of interest and reduce monitoring capacity if they were simultaneously involved in an overseeing role. They further emphasise the dangers of coupling by highlighting the potential for incorrect decisions and actions that may compromise shareholder interests. Baah et al. (2021) Suggest that the presence of independent (non-set managers and firms defined as non-stockholders or no relationship with board members, not on the board) can counteract some of these biases and provide effective oversight. This echoes the view of those who prioritise the distinction that independent trustees should only be directly connected with the company through their membership on the board.

However, CEO duality has a significantly negative effect on firm performance. CEO Duality (in essence, when the Chair of the Board is also serving as its own Chief Executive). This dual role can affect performance within our organisations. (Nahar Abdullah, 2004). Positive consequences have been theorised, whereas forecasting theories have highlighted negative consequences. There are conflicting results in empirical studies. Arslan et al. (2014) Find that audit committees have a positive impact on ROE and are not significant in relation to profit margin, similar to the impact of CEO duality. Kalsie and Shrivastav (2016) Find that CEO duality reduces Tobin's Q; hence, the empirical relationship between dual CEO roles and performance is multidimensional and depends on contextual factors. Thus, we propose the following hypotheses:

H_2: There is a negative relationship between CEO duality and Firm Performance.

The corporate literature has debated the impact of board size on an organisation's performance for years. This increase in size may enable boards to

ISSN (Print): 2959- 099X ISSN (Online): 2959-1007
Volume 4, Issue 1, Page 89-109

leverage a wider set of skills and resources, which some scholars argue can have beneficial effects on firm performance. There is also the view that a broader board of members is useful in terms of their capacity to leverage important external linkages and supply critical resources. It has been argued that board members have greater opportunities to exchange ideas, skills, and experiences, resulting in more effective organisational strategies and improved performance. (Pearce & Zahra, 1992). By contrast, other views suggest that the financial effects of adding board members are larger than their benefits. (Jensen, 1993; Zabri et al., 2016) Proved this contention. Several studies have demonstrated a correlation between a decrease in board size and an improvement in firm performance. (Conyon and Peck, 1998; Yermack, 1996). Board size, or the number of directors serving on the governing board at the company level, has been frequently discussed in the literature, yielding various results.

According to Eisenberg et al. (1998) and Williams (2022)A small board size has a negative influence on firm performance. However, some studies have found no significant effect of board size on firm performance. Ambiguous evidence on the direction and nature of the relationship between board size and firm performance suggests a need for additional research. This discussion highlights the distinction between how various elements interact in corporate governance processes to affect organisational performance. Some theories suggest that board enlargement may dilute its effect and increase risk aversion to profitability, but empirical findings present a mixed picture. (Iqbal & Kakakhel, 2016). Previous studies revealed that board size is not significantly correlated with improved financial performance. Thus, we propose the following hypotheses:

H_3: There is a negative relationship between board size and firm performance.

Audit committees supervise the financial reporting process and promote internal controls by reducing risk. (Klein, 1998), which can prevent management from misrepresenting reports and subsequently manage the accuracy of opponent figures. Audit committees also support financial reporting standards and enhance financial reporting by adding transparency and accountability. (Rajesh, 2023). A robust audit committee will also naturally focus on risk to the enterprise by first identifying risk areas and then taking appropriate mitigation actions to lessen the effect of those risks on the organisation's financial soundness. All these drivers contribute to shareholder wealth creation, including better financial reporting, risk reduction, and effective corporate governance practices at the firm level. (Hussain et al., 2022). Thus, we propose the following hypotheses:

H_4: There is a positive relationship between the Audit committee and firm performance.

Researchers suggest that when board members meet more frequently, critical issues are resolved more quickly and management oversight is more effective and better coordinated, thereby focusing the board closer on shareholders' interests. (Lipton & Lorsch, 1992). The time spent on board meetings can be a valuable resource for improving the functioning and decision-making capabilities of boards. (Conger et al. 1998). This implies that more meetings help board members have a marginally greater impact on firm performance. This is consistent with the findings of, who showed a significantly positive relationship between board meeting frequency and firm

profitability. Both studies suggest that more meetings, with shareholders and stakeholders alike, could result in better governance, that is, one that is informed to make more appropriate decisions. The study of Asghar et al. (2020) finds that fewer board meetings significantly increase earnings. This result presents a different perspective, suggesting that the relationship between the frequency of firm meetings and their performance may not be as straightforward as it appears. The inconsistencies in these results highlight the dimensions of corporate governance practices and their potential impact on organisational outcomes. The results serve as a demonstration of accommodating context-specific analysis while determining the appropriate frequency of board meetings for a particular firm.

H_5: There is a positive relationship between board meetings and firm performance.

Conceptual Framework

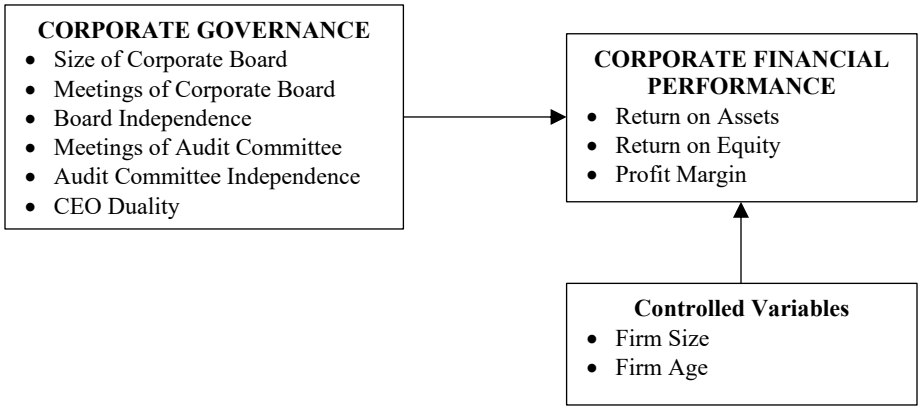


Figure 01: Conceptual Framework

Based on this research, the conceptual framework stipulates the expected relationship to be investigated. The argument that certain corporate governance attributes (i.e., board size and the frequency of board meetings, CEO role configuration, AC characteristics of the audit committee, and the extent of board independence) appear to operate in conjunction with control factors (i.e., firm age, size, and leverage) has a significant impact on a company's financial performance. In this analytical framework, firm performance is operationalised through key financial indicators, including return on assets (ROA), profit margin (PM), and return on equity (ROE). This part of the study also places these performance measures in context by reviewing past research that has determined the determinants of corporate profitability and performance in the Pakistani context, often using ROA, ROE, and PM as these measures.

Control Variables

This study incorporates three control variables to identify potential factors influencing the relationship between firm size, leverage, and firm age.

Firm Size: Larger firms may need to help identify and retain top talent, whether it be potential successors or outside consultants. Sticking to what they know

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Volume 4, Issue 1, Page 89-109

may provide more comfort, an essential feature of being close to the scene (Hambrick, 1987; Mwambuli, 2019).

Leverage: Concerning the capital structure, leverage can impact the financial constraints of a business strategy. Studies have shown a harmful relationship between the percentage of indebtedness and dialogue execution. (Meckling & Jensen, 1976). The leverage ratio may also serve as an explicit remuneration restriction. (Hutton et al., 2009).

Firm Age: A recent data-driven conclusion regarding leading firm characteristics involves the age of the firm. Cloud data may be linked to firm age as a start-up becomes operational and deals with its breach. Older firms tend to have lower growth rates. (Chang & Chiu, 2006). Firm age is also related to the likelihood of obtaining a series of associates, whereby medium performers tend to occupy the top rank.(Chiu & Chen, 2009).

Methodology

The empirical data for this investigation were collected from companies listed on the Stock Exchange between 2019 and 2023. Fifty-two firm-year observations were analysed for the sample, as ten companies were selected. A panel data regression model was employed to examine the hypothesised relationships between the independent and dependent variables, as previously used to analyse similar connections. (Anderson & Reeb, 2003). To assess the potential influence of corporate governance mechanisms (as well as selected control variables) on the financial outcomes of these ten Pakistani firms, an empirical focus is maintained on these firms, consistent with the region's past scholarly interest."

Regression Model

The study has constructed three econometric models to explore these relationships.

ROA Model

$$ROA=\beta1+\beta2BMEETINGit+\beta3BSIZEit+\beta4BINDEPENDENCEit+\beta5ACMEETINGSit+\beta6ACINDEPENDENCEit+\beta7CEODUALITYit+\beta8LEV\,it+\beta9\,FAGE\,it+\beta10FSIZE\,it+u it$$

ROE Model

$$ROE=\beta1+\beta2BMEETINGit+\beta23BSIZEit+\beta4BINDEPENDENCEit+\beta5ACMEETINGSit+\beta6ACINDEPENDENCEit+\beta7CEODUALITYit+\beta8LEV\,it+\beta9\,FAGE\,it+\beta10FSIZE\,it+u it$$

PM Model

$$PM=\beta1+\beta2BMEETINGit+\beta23BSIZEit+\beta4BINDEPENDENCEit+\beta5ACMEETINGSit+\beta6ACINDEPENDENCEit+\beta7CEODUALITYit+\beta8LEV\,it+\beta9\,FAGE\,it+\beta10FSIZE\,it+u it$$

The dependent variables in the above equations are performance measures, including ROA, ROE, and PM. B1 is a constant, and the others are coefficients in the equations. The independent variables include board meetings, board size, board independence, audit committee meetings, audit committee independence, and CEO duality. The control variables were leverage, firm age, and firm size. Uit is the error term. I indicate cross sections, and t indicates the time series; therefore, this is a panel data study.

Table 01: Measurement of variables

Sr. No.	Variables	Definition and Measurement	Expected Impact on Firm Performance	Sources
Dependent Variables (Firm Performance Measures) (Abbas, Farooq, Kashif, Hassan, & Murtaza, 2021; Boshnak et al., 2023)				
1	Return on Assets (ROA)	Measures how effectively a company uses its assets to generate profit. Net Profit / Total Assets * 100	A higher ROA indicates better asset utilisation to generate profit.	(Andreou et al., 2016; Gonzalez-Hermosillo et al., 1997; Hall & Weiss, 1967; Kang & Stulz, 1997; Rostami et al., 2016)
2	Return on Equity (ROE)	Measures the return on investment for shareholders. Net Profit / Shareholder Equity * 100	Higher ROE indicates better returns for shareholders.	(Ahmed et al., 2016; Al-Tamimia, 2020; Kumalasari & Pratikto, 2018; Williams, 2022)
3	Profit Margin (PM)	Measures how much profit a company generates per dollar of sales.Net Profit / Net Sales * 100	Higher PM indicates better profitability and cost management.	(Otekunrin et al., 2024)
Independent Variables (Corporate Governance Factors)				
4	CEO duality (CD)	If a director occupies the post of chairman and CEO at the same time, then (0), if not, then (1)	This can lead to decreased accountability and potential conflicts of interest, negatively impacting performance.	(Arslan et al., 2014; Nahar Abdullah, 2004; San Ong et al., 2015)
5	Board of Independence (BI)	How many non-executive directors are on the board	Higher independence can lead to better oversight and decision-making, improving performance.	(Agrawal & Knoeber, 1996; Black et al., 2012; Erkens et al., 2012; Hasan et al., 2023; Singh & Gaur, 2009)
6	Board meetings (BM)	How many times does BOD meet within a year?	Frequent meetings can lead to improved communication and decision-making, ultimately enhancing performance.	(Lipton & Lorsch, 1992)
7	Meeting of the Audit Committee (MAC)	How many audit meetings are conducted during the year?	More frequent meetings can lead to improved financial oversight and risk management, ultimately enhancing performance.	(Klein, 1998; Rajesh, 2023)
8	Audit committee independence (ACI)	An Effective Audit committee consists of how many directors of the company?	Higher independence can lead to more effective oversight and risk management, ultimately positively impacting performance.	(HUSSAIN et al., 2022)
9	Board size (BS)	Number of directors in the BOD	Larger boards can be less efficient and costlier, which	(Eisenberg et al., 1998; Jensen, 1993; Williams,

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Volume 4, Issue 1, Page 89-109

			may negatively impact performance.	2022; Zabri et al., 2016)
Control Variables (Company-specific factors)				
10	Leverage (LVG)	Total debt is divided by total assets (Yasser, 2011).	served as the control variable. It describes the amount of debt utilised to fund a company's assets.	(Andreou et al., 2016; Hutton et al., 2009; Meckling & Jensen, 1976).
11	Firm Size (FSIZE)	The natural log of the book value of total Assets.	This is the natural log of an entity's total assets. Prior studies have controlled for firm size to establish the relationship between multiple financial variables.	(Hambrick, 1987; Mwambuli, 2019).
12	Firm Age (FAGE)	The number of years since incorporation.	Analysis of Dunne & Hughes (1994) on firm age, who found that small companies were growing faster than big firms	(Chang & Chiu, 2006; Chiu & Chen, 2009)

Analyses and Interpretations

The analysis began by presenting descriptive statistics, including means, standard deviations, and ranges, to provide an initial understanding of the data. This was followed by a correlation matrix to explore the strength and direction of the relationships between variables. Finally, regression analysis was employed to examine these relationships in more detail and quantify the impact of the independent variables on the dependent variable.

Table 02: Descriptive Statistics

Statistic	ROA	ROE	PM	ACI	BM	BS	BI	CD	MAC	LEV	FAGE	FSIZE
Mean	8.51	3.31	0.34	4.96	4.72	9.60	4.10	0.69	4.87	4.87	9.60	4.96
Median	2.28	0.34	0.03	4.00	5.00	9.00	4.00	1.00	4.00	4.00	9.00	4.00
Maximum	33.85	61.75	7.92	9.00	9.00	13.0	6.00	9.00	11.00	11.00	13.00	9.00
Minimum	0.29	264.90	0.08	3.00	1.00	7.00	3.00	0.00	4.00	4.00	7.00	3.00
Std. Dev.	8.93	42.96	1.20	1.61	2.55	1.85	1.03	1.28	2.11	2.11	1.85	1.61
Skewness	0.77	4.65	5.44	1.35	0.33	0.08	0.34	5.39	2.41	2.41	0.08	1.35
Kurtosis	2.50	30.62	33.18	4.29	2.51	2.18	1.83	35.93	7.24	7.24	2.18	4.29
Jarque-Bera	5.69	1840.2	2230.1	19.33	1.44	1.51	4.00	2601.80	89.12	89.12	1.51	19.33
Probability	0.06	0.00	0.00	0.00	0.05	0.05	0.01	0.00	0.00	0.00	0.00	0.00
Observations	52	52	52	52	52	52	52	52	52	52	52	52

The descriptive statistics model provides a thorough description of the distribution and central tendencies of several key characteristics related to financial firm performance and corporate governance. Central Tendencies in Return on Assets (ROA) – The mean is 8.51%, which is significantly greater than the median value of 2.28%; thus, these data points indicate the need for action. The mean ROE is just over 3.31%, and the lowest negative return is -264.9%, indicating significant outliers at the high end of returns, which skew the overall average higher. The profit margin (PM) has a right-skewed distribution, with a mean of 0.34% and a median of 0.025%. ROA and ROE had standard deviations of 8.93% and 42.96%, respectively. The PM has a

lower standard deviation of 1.20%, meaning that it is generally less variable than the ROA and ROE. Distribution-shaped skewness values indicate that ROA and PM are right-skewed, while ROE is left-skewed. High kurtosis values for ROE and PM indicate the presence of high outlier values.

Table 03: Correlation Analysis

Variable	ROA	ROE	PM	ACI	BM	BS	BI	CD	MAC	LEV	FAGE	SIZE
ROA	1											
ROE	0.17	1										
PM	0.23	0.11	1									
ACI	0.57	0.10	0.10	1								
BM	0.34	0.18	0.11	0.76	1							
BS	0.29	0.01	0.11	0.56	0.49	1						
BI	0.21	0.10	0.15	0.29	0.09	0.02	1					
CD	0.20	0.00	0.04	0.04	0.01	0.12	0.25	1				
MAC	0.15	0.09	0.00	0.44	0.71	0.42	0.19	0.02	1			
LEV	0.15	0.09	0.00	0.44	0.71	0.42	0.19	0.02	1.00	1		
FAGE	0.29	0.01	0.11	0.56	0.50	1.00	0.03	0.12	0.42	0.42	1	
SIZE	0.57	0.10	0.10	1.00	0.76	0.56	-0.29	0.05	0.44	0.44	0.56	1

Correlation analysis examines the relationship between corporate governance and control variables, as well as financial performance measures (ROA, ROE, and PM). Regarding ROA, the results indicate a significant positive correlation with ACI (r = 0.5742), suggesting that ROA increases as ACI increases on average. The BM also displays a positive relationship with ROA (r = 0.3446), meaning that more BM is associated with higher ROA. The sign coefficient of Firm Size (FSIZE) is positive and consistently related to both ROA and ACI (r = 0.5742), indicating that prominent firms have higher ROA and more independent audit committees. This Study confirms the negative relationship between BI and ROA (r = -0.2100). (PM) The coefficient (r = -0.1496) suggests that firms with higher board independence may exhibit lower financial performance. MAC has a very slight negative correlation with ROA (r = -0.1545), which suggests that more frequent audit committee meetings may not always be beneficial in achieving favourable financial results. Board Size–insignificant Correlations Board Size (BS) correlates to a nearly unnoticeable extent with ROE (r = 0.0062), implying that there is no correlation at all. At the same time, CEO Duality (CD) has a minimum correlation with ROE (=-0.0042), which causes no significant influence on equity returns. Additionally, the correlation results suggest a strong positive relationship among ROA, governance factors (ACI and BM), and firm size. This could indicate a potential direction for future studies, given the negative correlations between BI and MAC. The combined effect of the relatively weak relationship between CD and ROE and the non-existent importance of BS suggests that contour measures are not indicative of overall financial performance in this model.

ISSN (Print): 2959- 099X ISSN (Online): 2959-1007
Volume 4, Issue 1, Page 89-109

Table 04: Regression Model (ROA)			
Variable	Coefficient	t-Statistic	Probability
Constant	0.55	1.89	0.08
ACI	2.76	3.11	0.00
BM	1.55	2.52	0.02
BS	0.26	1.49	0.63
BI	0.27	1.94	0.07
CD	1.35	2.04	0.05
MAC	3.04	5.33	0.00
LVG	0.62	1.95	0.00
FSIZE	0.77	2.46	0.00
FAGE	0.50	1.95	0.06
R-squared	0.81		
Adjusted R-squared	0.77		

The regression model demonstrated an R-squared value of 0.81, with an adjusted R-squared value of 0.77, confirming that the predictors collectively explain a substantial proportion of the variance in firm performance (ROA). Among the governance variables, the audit committee independence (ACI) emerged as the strongest positive predictor of ROA, with a coefficient of 2.76 and statistical significance at the 1% level ($p = 0.003$). This suggests that independent audit committees enhance the quality of monitoring and reporting, thereby improving firm performance.

Similarly, board meetings (BM) had a significant positive impact on ROA (coefficient = 1.55, $p = 0.015$), implying that frequent board meetings strengthen oversight and contribute to financial performance. CEO duality (CD) was also positively associated with ROA (coefficient = 1.35, $p = 0.047$), showing that combined leadership roles may provide stronger direction and improve firm outcomes. These findings are consistent with prior studies, such as those by Cheema and Din (2013), Hasan et al. (2023), and Manan and Amin (2023).

In addition, leverage (LVG) showed a positive and significant effect on ROA (coefficient = 0.62, $p < 0.01$), suggesting that firms using debt financing efficiently can achieve stronger returns. Firm size (FSIZE) also demonstrated a strong positive effect (coefficient = 0.77, $p < 0.01$), indicating that larger firms benefit from economies of scale and resource advantages. On the other hand, board size (BS) and firm age (FAGE) were not statistically significant, while board independence (BI) was marginally significant at the 10% level (coefficient = 0.27, $p = 0.071$).

The results highlight that governance mechanisms, particularly audit committee independence, board activity, CEO duality, leverage, and firm size, are critical determinants of financial performance in PSX-listed firms. These findings reinforce earlier evidence that effective governance structures enhance firm value (Paniagua et al., 2018).

Table 05: Regression Model (ROE)			
Variable	Coefficient	t-Statistic	Probability
Constant	-11.68	0.23	0.82
ACI	0.48	0.21	0.84
BM	0.39	0.70	0.49
BS	-3.80	0.59	0.55
BI	-2.54	0.65	0.52
CD	5.13	3.13	0.09
MAC	0.68	2.35	0.07
LVG	1.54	16.69	0.00
FSIZE	11.68	4.91	0.00
FAGE	0.39	0.38	0.70
R-squared	0.50		
Adjusted R-squared	0.55		

The regression analysis examined the effects of board attributes, governance mechanisms, and control variables on a firm's Return on Equity (ROE). The model produced an R-squared value of 0.50 and an adjusted R-squared of 0.55, indicating that approximately half of the variation in ROE is explained by the predictors.

Leverage (LVG) showed the strongest effect, with a coefficient of 1.54, which is highly significant at $p < 0.01$. This finding confirms that firms with higher leverage tend to have higher ROE, consistent with the general notion that debt magnifies shareholder returns but also increases risk.

Firm size (FSIZE) had the largest coefficient (11.68, $p < 0.01$), suggesting a strong positive relationship with ROE. This supports the view that larger firms benefit from economies of scale, resource availability, and diversification advantages, which enhance their equity returns.

CEO duality (CD) was positively associated with ROE ($\beta = 5.13$), significant at the 10% level ($p = 0.0897$). This implies that combining the roles of CEO and chair may influence equity performance, although the relationship remains marginal.

Meetings of the audit committee (MAC) were also marginally significant ($\beta = 0.68$, $p = 0.0726$), indicating a potential positive association between audit oversight and ROE.

Other governance attributes were not statistically significant: audit committee independence (ACI) ($\beta = 0.48$, $p = 0.8366$), board meetings (BM) ($\beta = 0.39$, $p = 0.4867$), board size (BS) ($\beta = –3.80$, $p = 0.5548$), board independence (BI) ($\beta = –2.54$, $p = 0.5182$), and firm age (FAGE) ($\beta = 0.39$, $p = 0.7044$). These results suggest that such governance factors have limited influence on ROE in the studied context.

The findings highlight leverage and firm size as the primary determinants of ROE, with CEO duality and audit committee meetings exhibiting weak but notable effects. These results are consistent with prior evidence (Khan et al., 2021; Williams, 2022).

ISSN (Print): 2959- 099X ISSN (Online): 2959-1007
Volume 4, Issue 1, Page 89-109

Table 06: Regression Model (PM)			
Variable	Coefficient	t-Statistic	Probability
Constant	1.33	1.95	0.03
ACI	0.61	2.09	0.04
BM	0.84	2.23	0.02
BS	0.83	1.97	0.49
BI	0.61	1.41	0.06
CD	0.11	3.72	0.05
MAC	0.89	4.74	0.05
LVG	0.52	1.98	0.02
FSIZE	0.67	5.79	0.00
FAGE	0.70	3.12	0.09
R-squared	0.91		
Adjusted R-squared	0.83		

The regression analysis investigated the effects of board attributes, control variables, and governance mechanisms on a firm's profit margin (PM). The model demonstrated strong explanatory power with an R-squared value of 0.91 and an adjusted R-squared value of 0.83, suggesting that approximately 83% of the variation in PM is explained by the predictors.

Audit Committee Independence (ACI) was a significant positive predictor ($\beta = 0.61$, $p = 0.036$), indicating that independent audit committees strengthen governance and financial oversight, thereby improving profitability. This finding is consistent with prior studies emphasising the monitoring role of audit committees in enhancing financial performance (Hasan et al., 2023; Kalantonis et al., 2023).

Board Meetings (BM) also showed a positive and significant impact on PM ($\beta = 0.84$, $p = 0.023$), supporting the idea that frequent board meetings improve decision-making and strategic planning, leading to stronger financial performance (Shahzadi et al., 2023).

CEO Duality (CD) was found to be significant at the 5% level ($\beta = 0.11$, $p = 0.047$), indicating that concentrating leadership in one individual may enhance decision efficiency and positively impact profit margins. However, the effect remains modest and context dependent.

Meetings of the Audit Committee (MAC) were also significant ($\beta = 0.89$, $p = 0.046$), confirming that active audit committees play a crucial role in enhancing financial performance through regular engagement.

Among control variables, leverage (LVG) ($\beta = 0.52$, $p = 0.017$) and Firm Size (FSIZE) ($\beta = 0.67$, $p < 0.001$) were both strong and significant predictors of PM. These results suggest that firms with higher leverage and larger size tend to enjoy stronger financial performance due to economies of scale, better access to financing, and more efficient use of debt.

On the other hand, Board Independence (BI) ($\beta = 0.61$, $p = 0.065$) and Firm Age (FAGE) ($\beta = 0.70$, $p = 0.092$) were marginally significant at the 10% level, implying that while these factors may influence profitability, further evidence is needed to establish their role. Board Size (BS) was not significant ($\beta = 0.83$, $p = 0.486$), suggesting that board size may not be a determinant of profitability in this context.

The results highlight that ACI, BM, CD, MAC, LVG, and FSIZE are significant predictors of profit margin, while BI and FAGE show marginal effects. These findings align with recent literature (Alshdaifat et al., 2024; Hasan et al., 2023; Kalantonis et al., 2023).

Theoretically, the study extends the application of agency theory and resource dependence theory in emerging markets where governance frameworks are evolving (Hasan et al., 2023; Koskinen et al., 2024). Practically, the findings offer useful insights for regulators, such as the SECP, to refine corporate governance codes, and for boards and managers to design effective governance mechanisms. For investors and shareholders, these results enhance confidence in governance practices, potentially attracting higher investment inflows and improving market performance (Farooq et al., 2022).

Discussion

The results of the present research paper indicate that corporate governance mechanisms have a significant impact on the financial performance of oil and gas stock-listed companies on the Pakistan Stock Exchange. In line with agency theory, the findings indicate that the independence of audit committees, the frequency of board meetings, and the configuration of the CEO's roles have a significant impact on profitability measures, such as ROA and PM. These findings complement previous research on the importance of active and independent oversight systems, as they curb managerial opportunism and improve reporting quality, thereby enhancing firm performance (Hasan et al., 2023; Rajesh, 2023).

Interestingly, it was found that the relationship between board independence and board size was weak or varied in its impact on financial performance. This aligns with the general evidence across various jurisdictions, which indicates that the independence of directors is highly contingent upon their effectiveness. The independence of the board of directors in an emerging country like Pakistan may be more of a formality than a substantive measure, given the nature of concentrated ownership schemes and family-run businesses (Farooq et al., 2022; Kalantonis et al., 2023). On the one hand, larger boards may offer the benefit of diverse skills, but they also experience the problem of decreased coordination and slower decision-making, which erodes this advantage in the firm's performance (Kalsie & Shrivastav, 2016; Williams, 2022).

A positive relationship between audit committee activity and profitability in the oil and gas industry indicates the need for enhanced financial oversight in resource-intensive industries. Frequent audit committee meetings will help identify risks at an early stage, making them more efficient, transparent, and building investor confidence. This finding aligns with recent evidence studies in both developed and emerging

ISSN (Print): 2959- 099X ISSN (Online): 2959-1007
Volume 4, Issue 1, Page 89-109

economies that emphasise the importance of audit committees in achieving good governance (Boshnak et al., 2023; Alshdaifat et al., 2024).

Another surprising yet significant result is the positive relationship between CEO duality and ROA and PM in the Pakistani environment. However, previous studies reveal that CEO duality destabilises independence and compromises monitoring (Nahar Abdullah, 2004). Empirical results suggest that dual leadership may enhance unified decision-making and facilitate rapid responses to market-related changes. This result is consistent with the reasoning supporting the contextual contingency argument, which suggests that two-tier predication between CEOs may be advantageous in high-dynamic environments that require fast and centralised leadership (Bui & Krajcsak, 2024). It is not expected, however, that this will happen in other sectors, as well.

Additionally, the firm-specific variables — precision with leverage, size, and age — proved to be moderating in the analysis. Larger companies tend to have better financial outcomes, as indicated by resource dependence theory, which posits that size and the associated control of resources are key factors that give firms a competitive edge (Koskinen et al., 2024). Leverage, however, which is usually regarded as a source of financial risk, showed a positive association with returns, aligning with the argument that debt can serve as a disciplining device that prompts managers to utilise resources more efficiently (Meckling & Jensen, 1976; Otekunrin et al., 2024). Firm age, however, had little effect, reflecting the fact that ageing is not enough to enhance performance unless good governance practices are in place.

The results emphasise that corporate governance does not have the same impact on all mechanisms. It does not have a general effect, but rather works in conjunction with variables in its surroundings, such as ownership structures, enforcement of regulations, and peculiarities of the firms. This nuanced perspective highlights the specificity of governance reforms. These reforms must be implemented in Pakistan, taking into consideration not only international best practices but also the realities of institutional development.

Conclusion

This paper investigates the effects of corporate governance mechanisms on the financial performance of oil and gas companies listed on the Pakistan Stock Exchange from 2019 to 2023. Based on the panel regression model, it is evident that certain governance measures, particularly audit committee independence, board meetings, and audit meetings, have positive effects on the financial performance variables (ROA and PM). These results suggest that active oversight and high levels of monitoring contribute to transparency, reduce managerial opportunism, and increase profitability (Boshnak et al., 2023; Hasan et al., 2023).

The findings reveal that CEO duality, which has been criticised in numerous cases in the governance literature, is positively related to performance in the Pakistani oil and gas industry. This means that CEO duality might be a necessary circumstance within an industry that demands centralised leadership capability, potentially leading to faster decision-making processes and enhanced efficiency. New evidence suggests weaker or mixed associations between board size and board independence and

financial results, potentially indicating that these mechanisms may not operate as effectively in contexts with concentrated ownership and weaker regulatory enforcement intensity (Farooq et al., 2022; Kalantonis et al., 2023).

The study also emphasises another key point: the moderating effect of firm-specific characteristics, specifically leverage and firm size, on financial performance. Better financial performance was observed in larger firms and those employing moderate levels of leverage, supporting both agency and resource dependence views (Meckling & Jensen, 1976; Koskinen et al., 2024).

The outcomes reveal the necessity to distinguish between the universal impact of corporate governance on firm performance and its contextual impact. A well-developed audit committee, board oversight, and efficient leadership structures are crucial for promoting financial performance in the oil and gas industry in Pakistan. The implications of these findings for regulators, policymakers, and investors are that they must construct new forms of governance frameworks that align with the realities of emerging markets' operating institutions and industrial dynamics. As a future research direction, the study should be extended in both dimensions: to include more sectors and adopt a longitudinal or mixed-methods study design to reflect the dynamic nature of the relationships between governance and performance.

Recommendations

Policy should enhance the monitoring and enforcement of corporate governance codes, particularly in areas such as board independence, the effectiveness of audit committees, and CEO duality. This would make them more transparent, more accountable, and more protective of shareholders in listed firms (Alshdaifat et al., 2024). Second, oil and gas firms should prioritise the appointment of independent directors and regularly convene audit committees to review financial reporting and risk management. These efforts have been proven to positively affect profitability and operational efficiency. Third, it is recommended that companies establish a board of an optimal size that is neither too large, which may cause strategic rigidity in decision-making, nor too small, exposing the company to a lack of expertise (Kalsie & Shrivastav, 2016). Fourth, investors and stakeholders should pay attention to firm-specific characteristics, such as size, leverage, and age, in evaluating performance, as these have a significant moderating impact on the governance-performance relationship. Lastly, future studies should increase the sample size by including other industries and employ mixed methods that provide information on the qualitative aspects of governance that cannot be captured using quantitative modelling.

Limitations

This research is limited, like many other empirical studies. Second, only ten listed companies, covering the oil and gas sector in Pakistan, are analysed, which can decrease the generalizability of results to other sectors or economies. Second, a five-year time frame (2019-2023) may not capture the long-term dynamics between the two links, governance structures, and firm performance, considering the effects of regulatory changes and global crises like COVID-19. Finally, the research is primarily quantitative in terms of data collection and panel regressions as tools; therefore, qualitative dimensions of governance, such as board culture, leadership style, and

emergent types of oversight, are often disregarded (Bui & Krajcsak, 2024). Finally, secondary data in annual reports and stock exchange records are less accurate and not comprehensive enough, and they often have a reporting bias that can exclude certain previously undisclosed governance practices.

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