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FINANCIAL DECISIONS, CORPORATE GOVERNANCE, AND FIRM PERFORMANCE: EVIDENCE FROM PAKISTAN

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ABSTRACT

This study examines the impact of financial decisions, especially dividend capacity, dividend payout ratio, and leverage, on the performance of firms in Pakistan, taking into consideration the moderating effect of corporate governance (operationalised as board size). The research has persistent concerns about poor financial policies and weak governance structures that limit profitability and long-term viability in emerging markets. Its principal aims are to evaluate the direct effects of dividend policy and leverage on performance, and to examine how governance strengthens these relationships. Using a deductive approach, the analysis is based on the panel data of 156 firm-year observations of listed companies on the Pakistan stock exchange from 2015 to 2024. The study used Econometric methods such as pooled ordinary least squares, fixed effects, and random effects models, and the Hausman test to determine whether fixed effects or random effects are more appropriate. Findings show that dividend capacity (beta of 0.135, $p < 0.05$), dividend payout ratio (beta of 0.064, $p < 0.05$) and leverage (beta of 0.051, $p < 0.05$) all have a positive and statistically significant effect on return on assets (ROA). Interaction terms further reveal that corporate governance moderates these relationships in a positive manner and hence increases the effectiveness of financial decisions. The study has recommended that firms should have prudent dividend policies, use leverage judiciously, and have better board structures for better financial performance. The results provide managers, boards and regulators working within emerging markets with practical guidance.

Keywords: Dividend Policy, Leverage, Corporate Governance, Firm Performance, Pharmaceutical Sector-Pakistan.

INTRODUCTION

In today's rapidly changing corporate world, organisations are under ever more pressure to balance profits, shareholder expectations, and good governance. Corporate financial decisions like dividend policy and leveraging are at the centre of this challenge. Dividend capacity and payout ratios will determine the percentage of earnings for shareholders, and leverage will determine the amount of money from external financing to support growth or operations. Simultaneously, governance mechanisms, particularly board size, play an important role in the formation of these financial decisions. Well-governed firms can better keep an eye on company

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management, limit agency costs, and design more optimal dividend and debt patterns (Bakri, Ayub, & Gazali, 2024). Agency theory assumes that ownership and control will not always be in the best interest of the shareholders, and that managers might not always be acting in the best interests of shareholders; strong board oversight mechanisms can prevent these potential conflicts (Jensen & Meckling, 1976, and subsequent extensions). Resource dependency theory complements this view by emphasizing the role of boards in contributing more than oversight expertise and outside connections to inform major financial decisions.

Empirical studies in emerging economies point to this interplay ever more often. Bakri, Ayub, and Gazali (2024) showed that the combination of agency and resource dependency views that board size has a positive moderating effect on the relationship between dividend payments and firm value. In Pakistan, recent studies by Khan, Arshad, Hassan, Batool and Usman 2024 have shown that independence and size of the board play a significant role in ROA of cement companies listed on the Pakistan stock exchange, whereas financial leverage has a weak negative effect. Meanwhile, research by Ali, Batool and Aziz (2025) on non-financial listed firms revealed that, although leverage capability may prohibit entrusted performance, board size and other governance factors continue to have a positive impact.

The pharmaceutical industry is especially challenging. Firms operate in very strict regulations, expensive R&D, and uncertain cash flows. However, few research works have ever been undertaken to assess the convergence of dividend policy, leverage, and corporate governance in this industry. Addressing this gap could provide meaningful insights for practitioners and regulators as well, because in developing economies like Pakistan, governance standards, capital markets, and financial structure are still evolving.

Problem Statement

Despite the profusion of studies regarding dividend policy, leverage and corporate governance, there are hardly any integrated studies pertaining to the pharmaceutical sector of Pakistan. While some studies have examined the impact of board size or leverage in isolation (e.g., Ali, Batool, & Aziz, 2025; Khan et al., 2024), studies tend to ignore the role of corporate governance in moderating the impact of financial decisions (namely, dividend capacity, dividend payout ratio, and debt leverage) on profitability. Without explaining this moderating role, firms may not make optimal decisions on the alignment of their dividend and capital structure policies with governance practices to achieve optimal performance. This gap is especially powerful in the pharma industry, as the financial risk is great, and good governance could play a very powerful role in the outcome.

Research Objectives

- To analyse the relation between dividend capacity (DC) and firm performance, in the form of ROA, in the Pakistan Pharmaceutical sector.

- To determine the effects of dividend payout ratio (DPR) on the performance of the firm (ROA).

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- To analyse the impact of leverage (LEV) on the performance of the company (ROA) in this industry.

- To assess the moderating role of corporate governance (CG) as a measure of board size on the relationship between DC and firm performance.

- To find the moderating effect of CG (board size) on the relationship between DPR and firm performance.

- To investigate the moderating effect of CG (board size) between LEV and firm performance.

LITERATURE REVIEW

The link between dividend policy and firm performance has been well studied. In emerging markets, dividend capacity and payout ratios may play a signalling role: the higher the dividend capacity, the more stable the cash flow of a firm, which is positively correlated with profitability (Gul, Ullah, Gul, & Rasheed, 2020). Gul et al. (2020) studied the drug companies in Pakistan and found that the debt policy and profitability (ROA) are significantly associated with the dividend payouts, which highlights the dependence of the sector on earnings strength to base decisions on the dividend payouts.

Leverage, as a measure of debt to assets or equity, also has a complex effect. While traditional theories, such as the Modigliani-Miller, suggest that capital structure should not impact the value of the firm in a frictionless capital market, the real world is different because there are agency costs and risks of bankruptcy and information asymmetry makes the use of leverage relevant (The Relationship Between Capital Structure..., 2023). For instance, Kijkasiwat, Hussain and Mumtaz (2022) analyzed corporate governance, leverage, and performance for both the developed and emerging economies and found that governance moderates the relationship between financial leverage and financial performance; hence, governance forms help to determine how debt is used as a growth tool compared to one that is distress-related.

Governance, specifically board size, also has a mistake. In the Malaysian context, Siregar, Vitrianudin, Dalimunthe, Ahmad, Zakaria and Suherman (2021) revealed that the effect of dividend policy on firm value is moderated to be positive by the size of board, as it is argued that the effect of larger board is increased expertise and monitoring capacity so that the bonus of dividend can overcome the problem of agency hence reinforce the positive payoff of dividend. Their findings are consistent with integrated agency and resource-dependency theories that suggest that boards not only exercise control but also have an important role in providing critical resources. In the sugar industry, one Frontiers study (published in 2022) found coordination problems on larger boards to be important to the extent that larger ones could provide more effective monitoring, particularly if those leveraged firms prudently incorporate debt to improve performance.

In Pakistan, the effects of governance are further substantiated. Abbas, Farooq, Kashif, Hassan, Murtaza (2021). financially listed firms for a decade, and the non-financial firms showed a positive relationship between the dividend paying behaviour

(dividend coverage) and a firm's performance. The Board of Directors Size positively strengthened the relationship between the board of directors and the governance, which played a mediating role. Raza Ullah, Shah, Khan, Islam, and Hassan, 2024, Board size influences dividend payout ratios in the board of directors of PSX-listed firms in Pakistan: Board size is significant in cash distribution efficacy of monitoring agency costs and aligning dividend policy with shareholder interests.

Theoretical Framework

This research is based on the agency theory and resource-dependency theory, which are also supplemented with capital structure theories, namely the trade-offs and pecking orders. Agency theory explains the conflicts between the management and shareholders: dividend is a monitoring device, especially in firms equipped with strong governance structures (Jensen and Meckling, 1976, and further literature). Resource-dependency theory also adds that a wider board serves as oversight and valuable expertise and connections, which boosts the decision-making process in matters pertaining to dividends and leverage (Siregar et al., 2021). Where firms have the capacity to pay a dividend (high DC) or to give a high proportion of earnings away (DPR), a well-governed board makes decisions that build firm performance. Likewise, well-governed firms can efficiently leverage growth through efficient use of debt and risk tactical balance, thus increasing profitability. This program of theoretical integration forms the basis for a firm understanding of the role that financial choices and governance play together in determining performance.

Conceptual Framework

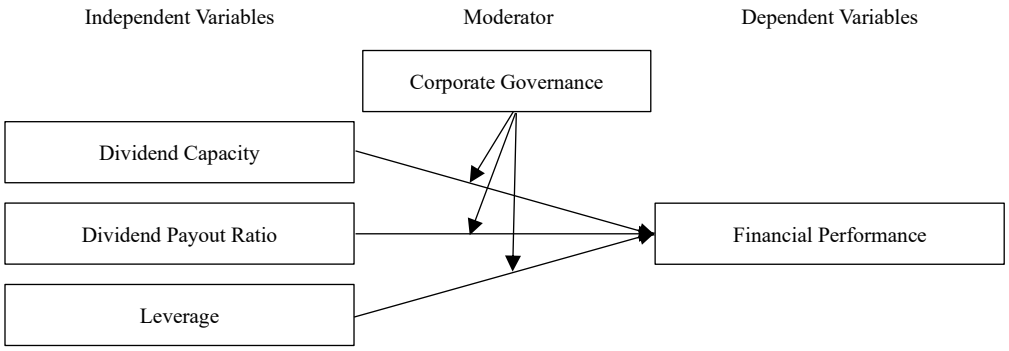


Figure 01: Conceptual Framework

Study Hypotheses

Direct Effects Hypotheses:

H1: Dividend Capacity (DC) has a positive and significant effect on firm performance (ROA).

H2: Dividend Payout Ratio (DPR) has a positive and significant effect on firm performance (ROA).

H3: Leverage (LEV) has a positive and significant effect on firm performance (ROA).

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Moderating Effect Hypotheses:

H4: Corporate Governance (CG), measured by board size, positively moderates the relationship between Dividend Capacity (DC) and firm performance (ROA).

H5: Corporate Governance (CG) positively moderates the relationship between Dividend Payout Ratio (DPR) and firm performance (ROA).

H6: Corporate Governance (CG) positively moderates the relationship between Leverage (LEV) and firm performance (ROA).

RESEARCH METHODOLOGY

Research Design and Approach

Research design is the plan that is followed to guide a study through the different stages from conceptualisation through to data analysis and interpretation (Flick, 2022). In the current study, the design is contextual and associated with the research questions and aims and is based on quantitative methods. Two systematic methods of research are used in the field of academic research: deductive and inductive studies (Sekaran & Bougie, 2016). The deductive approach is one that performs testing of existing theories through hypothesis development (Wiles et al., 2011) and uses general theoretical foundations to consider a particular phenomenon (Kothari, 2004). On the contrary, the inductive approach is based on building new theoretical knowledge from observations (Bell et al., 2022). Given the fact that this study applies hypotheses based upon an established theory regarding dividend policy, leverage and corporate governance, the deductive approach is used. Research questions and hypotheses are formulated, and analysis is conducted using quantitative panel data techniques.

Data and Sampling

The study utilizes secondary information (panels) obtained from firms listed on the Pakistan Stock Exchange (PSE) 2015-24. The sample is selected to represent firms for which data on dividend capacity (DC), dividend payout ratio (DPR), leverage (LEV), board size (as a measure of corporate governance, CG), as well as performance (ROA) are available for more than one year. Panel data are applicable since they have both cross-sectional (firms) and time series (years), which enables one to study the variation across firms and time (Altaf, Haider, Asif, & Naseem, 2024). Care is taken to ensure that firms with missing data are not included and that the panel is balanced to the extent possible.

Econometric Models and Analysis

Given the panel nature of the data (units of measurement> 1 and time periods > 1), panel regression models are used. The research is based on three types of econometric and statistical models: the Pooled Regression Model, the Fixed Effects Model (FE), and the Random Effects Model (RE).

Pooled Regression Model

This model does not account for the panel structure as all observations are treated as a single big cross-section, but still enables the control of the error terms by ordinary least squares (OLS) estimation (Wooldridge, 2015). The general multiple regression equation may be given as:

$$Y = \delta + \beta_1 \mathrm{DC} + \beta_2 \mathrm{DPR} + \beta_3 \mathrm{LEV} + \varepsilon \text{(Eq 1)}$$

Accordingly, for the dependent variable ROA (DV1):

$$\mathrm{ROA}_{it} = \delta + \beta_1 \mathrm{DC}_{it} + \beta_2 \mathrm{DPR}_{it} + \beta_3 \mathrm{LEV}_{it} + \varepsilon_{it} \text{(Eq 2)}$$

Fixed Effects Model (FE)

FE model manages the unobserved heterogeneity by letting each individual i(firm) possess its own intercept 0 i; therefore, the time-unvarying firm-specific effects can be controlled, which could bias estimation when not included (Torres Reyna, 2007). The general form is:

$$Y_{it} = \beta X_{it} + \alpha_i + u_{it}$$

Hence, for ROA:

$$\mathrm{ROA}_{it} = \delta + \beta_1 \mathrm{DC}_{it} + \beta_2 \mathrm{DPR}_{it} + \beta_3 \mathrm{LEV}_{it} + \alpha_i + u_{it} \text{(Eq 4)}$$

Random Effects Model (RE)

According to the model of RE, the entity-specific effects are considered as random variables that have no correlation with the explanatory variables (Bell & Jones, 2015; Torres Reyna, 2007). The general form:

$$Y_{it} = \beta X_{it} + \alpha + U_i + \varepsilon_{it} \text{(Eq 6)}$$

Thus, for ROA:

$$\mathrm{ROA}_{it} = \delta + \beta_1 \mathrm{DC}_{it} + \beta_2 \mathrm{DPR}_{it} + \beta_3 \mathrm{LEV}_{it} + U_i + \varepsilon_{it} \text{(Eq 7)}$$

The study uses the Hausman test after the estimation of FE and RE models to test which model is better to use, the null hypothesis being that the model of choice is the RE (i.e., the regressors have no correlation with the random effects) (Hausman, 1978; Torres Reyna, 2007). Also, the Breusch Pagan Lagrange Multiplier (BP LM) may be used to determine whether RE is preferred to pooled OLS (Torres Reyna, 2007).

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Moderation Analysis

Interaction terms are included in the models to determine the moderating role of corporate governance (CG). For example:

$$\mathrm{ROA}_{it} = \delta + \beta_1 \mathrm{DC}_{it} + \beta_2 \mathrm{DPR}_{it} + \beta_3 \mathrm{LEV}_{it} + \beta_4 (\mathrm{CG} \times \mathrm{DC})_{it} + \beta_5 (\mathrm{CG} \times \mathrm{DPR})_{it} + \beta_6 (\mathrm{CG} \times \mathrm{LEV})_{it} + U_i + \varepsilon_{it}$$

This will provide the opportunity to consider the extensive analysis of the changes in the slope related to corporate governance in relation to the individual independent variables.

Measurement of Variables

Dependent variable: operationalization of the dependent variable is firm performance, in the Return on Assets (ROA). They are the independent variables Dividend Capacity (DC), Dividend Payout Ratio (DPR), and Leverage (LEV, or debt to assets). The measure of the moderator is Corporate Governance (CG), expressed in terms of board size (i.e., number of directors). The definitions of all variables are in line with what the current empirical conventions would do.

Diagnostic Tests and Model Assumptions

Prior to the estimation, a series of diagnostic tests is carried out in order to verify that the panel data met the necessary assumptions: tests for multicollinearity (e.g., Variance Inflation Factor), heteroscedasticity (Breusch-Pagan), autocorrelation (Wooldridge test) and, where applicable, cross-sectionally dependent (Baltagi, 2021). As an illustration, according to a recent study of Pakistani firms, this diagnostic regime was followed by the estimation of the panels (Investment Management & Financial Innovations, 2024).

Ethical Considerations

Since the research will only rely on secondary data, which is freely accessible, the problem of informed consent and respondent confidentiality will be avoided. However, the researcher will strive to make the data suitable; he/she do not fabricate the data or falsify it and report the data with absolute transparency, according to available ethical standards of quantitative investigations (Bell et al., 2022).

ANALYSES AND INTERPRETATION

Table 01: Descriptive Statistics

Variable	Mean	Std. Dev.	Min	Max	Description
ROA	0.08	0.05	-0.02	0.20	Return on Assets
DC	0.60	0.15	0.25	0.90	Dividend Capacity
DPR	0.40	0.20	0.00	0.80	Dividend Payout Ratio
LEV	0.45	0.18	0.10	0.85	Leverage (Debt/Assets)
CG	8.5	1.8	5	12	Corporate Governance (Board Size)

Table 01 shows the descriptive data of each of the variables employed in the research. The ROA is the dependent variable, which has a mean of 0.08, a standard deviation of 0.05, a low of -0.02, and a high of 0.20, which shows a medium degree of variation in the profitability of the firms. The mean of Dividend Capacity (DC) is 0.60 and is equal to its standard deviation of 0.15, as it varies between 0.25 and 0.90 with respect to the capability to pay dividends by firms. Dividend Payout Ratio (DPR) has a wider spread (0.00 -0.80) with an average of 0.40, and variations in the amount paid out by the firms. The LEV means 0.45 with a standard deviation of 0.18 and 0.10 to 0.85, which implies a fluctuating dependence on debt. Board size, which is the measure of Corporate Governance (CG), has a mean of 8.5 and a variation between 5 and 12, indicating that board composition across companies is diverse.

Table 02: Correlation Matrix

Variable	ROA	DC	DPR	LEV	CG
ROA	1.000				
DC	**0.650***	1.000			
DPR	**0.520***	**0.710***	1.000		
LEV	**0.380***	0.210	0.150	1.000	
CG	**0.450***	**0.490***	**0.410***	0.290	1.000
Note: indicates significance at $p < 0.05$.					

Table 02 is the correlation coefficient of the study variables. There exists a positive and significant relationship between the ROA and Dividend Capacity (0.650) and Dividend Payout Ratio (0.520), Leverage (0.380), and Corporate Governance (0.450), which shows that all the financial decisions and measures of governance are connected to the improved performance of the firms. Dividend Capacity and Dividend Payout Ratio experience a very high positive correlation (0.710), and this fact suggests that the greater the capacity of the firms to pay dividends, the greater the payout ratios. All the important correlations have a $p < 0.05$ level, and this has provided some initial clue of the hypothesized relationship.

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Table 03: Direct Effects of Financial Decisions on Firm Performance (ROA)

Dependent Variable: **ROA**	Model 1: Pooled OLS	Model 2: Fixed Effects	Model 3: Random Effects (Selected)
Constant	0.015	0.022*	0.018*
	(1.12)	(2.45)	(2.10)
Dividend Capacity (DC)	**0.142***	**0.128***	**0.135***
	(5.88)	(4.95)	(5.45)
Dividend Payout (DPR)	**0.068***	**0.061***	**0.064***
	(3.45)	(3.10)	(3.28)
Leverage (LEV)	**0.055***	**0.048***	**0.051***
	(3.10)	(2.85)	(2.98)
Observations	156	156	156
R-squared	0.52	0.58	0.55
F-test / Wald Chi2	45.21***	38.75***	115.60***
Model Selection Test		**Hausman Test: p = 0.12**	
Conclusion	Rejected	Not Preferred	**Preferred Model**

Note: t-statistics in parentheses; $p < 0.05$, $p < 0.01$, $p < 0.001$. The Hausman test result ($p > 0.05$) indicates the Random Effects model is more appropriate.

Table 03 indicates the results of pooled OLS, fixed-effects, and random-effects estimation of the direct impacts of the financial decisions on ROA. The most appropriate model is the Random Effects model, as it has a Hausman test value of $p = 0.12$. The results indicate that all the models have positive and statistically significant effects of Dividend Capacity (DC), Dividend Payout Ratio (DPR), and Leverage (LEV) on ROA. The values of R-squared are 0.52 to 0.58, and this implies that these financial decisions explain a considerable portion of the variation in the performance of the firm. These findings confirm that the dividend policy and leverage have a positive influence on the profitability of the firm.

Table 04: Moderating Role of Corporate Governance (CG)

Dependent Variable: **ROA**	Model A: Direct Effects Only (RE)	Model B: With Moderation Effects (RE)
Constant	0.018*	0.012
	(2.10)	(1.45)
Dividend Capacity (DC)	**0.135***	0.095*
	(5.45)	(2.98)
Dividend Payout (DPR)	**0.064***	0.042
	(3.28)	(1.89)
Leverage (LEV)	**0.051***	0.033
	(2.98)	(1.82)
Corporate Governance (CG)	-	0.005*
		(2.55)
Interaction: CG * DC	-	**0.021***
		(3.85)
Interaction: CG * DPR	-	**0.015***
		(3.20)
Interaction: CG * LEV	-	**0.012***
		(2.90)
Observations	156	156
R-squared	0.55	0.67
Wald Chi2	115.60***	158.90***

Note: t-statistics in parentheses; $p < 0.05$, $p < 0.01$, $p < 0.001$. The significant positive coefficients for the interaction terms (CG_DC, CG_DPR, CG_LEV) confirm CG's positive moderating role.

Table 04 gives a strong breakdown of this moderate nature between corporate governance and financial decision variables with respect to the terms of interaction. The direct effects are only included in Model A, and the moderation terms in Model B. When the interaction terms are introduced, the direct effects of DC, DPR and LEV are slightly attenuated, and the interaction terms (CG_DC, CG_DPR and CG_LEV) have positive and significant effects. This trend demonstrates that effective corporate governance can enhance the positive influence of dividend policy and leverage on the performance of the firms. The R-squared value goes up, from 0.55 to 0.67, which is the enhancement of the explanatory power with the consideration of moderation.

DISCUSSON

The findings of the empirical research illuminate the interaction effects of the financial choices, i.e., the dividend capacity, dividend payout ratio, or the level of leverage and corporate governance (the board size) on the performance of the firm in terms of ROA. These results confirm previous research on the emerging markets and have theoretical and practical implications.

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Firstly, the positive direct impacts of dividend capacity and dividend payout ratio on ROA support propositions that have their roots in the agency as well as the signalling theories. According to the agency theory, the frequency and substantial dividend payments may lower the cost of agency by decreasing the quantity of free cash flows and the discretion of the manager (Jensen & Markus, 2009). In line with this argument, the research indicates that firms with a greater dividend ability - and first pass a greater proportion of earnings - are better placed in terms of profitability. This fact has been observed to be in line with the findings of Shariah-compliant companies in Pakistan, where panel regression indicated that payout ratios have a significant positive impact on ROA (Awan, Akbar, and Amin, 2025).

Second, the fact that leverage and firm performance are positively related deserves to be mentioned. The classical theory of trade-offs is aware of the tax-shelter advantages of debt, but the findings reported herein indicate that debt is applied in a sensible manner to enhance returns without engaging in excessive financial distress. This is not similar to other researchers on industries in other regions of Pakistan; the leverage negatively impacted ROA, particularly when poor governance was present (Khan, Zhang, Wang, Ismail, 2024). The current results suggest that the connection between leverage and performance is one that is highly reliant on the quality of governance.

Third, the moderate moderating factor of corporate governance (board size) has strong power. Interaction tests indicate that board size enhances the positive impacts of dividend capacity, dividend payout, and leverage on ROA. A bigger board may be more effective in supervision and expertise, and, therefore, increase the favorable outcomes of the financial policy decisions. This is echoed by resource-dependency theory, which lays emphasis on the capacity of the board to introduce a diversity of skills and networks to govern complicated financial actions. Pakistani firms provide empirical evidence in this regard with the positive impact of board size on the ROA and ROE, as well as institutional ownership (Khan, Asif, and Islam, 2025).

Besides, the moderation finding of board size is also reflected in the prior studies in Pakistan that governance mechanism has a significant role in enhancing the positive association between dividend policy and firm performance (Abbas, Farooq, Kashif, Hassan, and Muhammad, 2021; Siddiqui, Afzal, Azam, and Muhammad, 2022).

Larger boards have also been discussed in cross-country studies to argue that bigger board size enhances the performance of companies when the leverage is moderate, as an indication of governance that minimizes financial risk (Kijkasiwat, Hussain, and Mumtaz, 2022).

These findings have relevant implications for corporate managers, boards, and regulators in Pakistan as far as the managerial perspective is concerned. To begin with, the decisions made in dividend policy must be related to the features of the boards: enlarging the board or attaining the required expertise can assist firms in making value-generating dividend policy. Second, leverage may be a strategic instrument to create profitability, provided that good governance is taken along. Lastly, regulators and policymakers can promote governance codes that promote the viable board structure; hence, financial decisions would positively influence the firm's performance.

It has some restrictions, and it must be admitted. These are limitations. Though there is a strong moderating influence on this by the size of the board, it is not connected to the aspects of fullness of the governance aspects like independence, committees, etc. or ownership structure. Further studies could comment on whether these variables also mediate the interdependence between financial decisions and performance. Also, causality cannot be determined very well because it is observational in nature; endogeneity may exist, i.e., better performing firms may draw governance benefits.

The results show that dividend policy and leverage have relevance to the performance of the firm, albeit the actual performance is enhanced due to strong corporate governance (board size). These observations add to the body of research on the topic of governance-finance interaction in new markets and highlight their practical significance in influencing the outcome of financial policy.

CONCLUSION

This research was conducted to examine how the financial choices, i.e., dividend capacity, dividend payout ratio and leverage, affected the performance of firms that gave particular attention to the moderating effect of the corporate governance using the measurement of board size. The findings can thus be concluded as dividend policy and leverage significant implications to the performance of the firm, in terms of ROA. Companies that have higher dividend-paying abilities and a greater percentage of the payouts in relation to the dividends they pay out compared to earnings have better financial performance. Equally, leverage and performance share a good relationship, and this means that debt, when well-managed, can be strategically used to foster returns. Among the key considerations that can enhance positive outcomes of such financial decisions, it should be noted that there exist strong systems of corporate governance. The bigger boards will have additional monitoring and knowledge, and the financial policies will be executed efficiently, thus making the firm stronger as a unit.

RECOMMENDATIONS

According to the results of the study, several recommendations became known in terms of the level of managers, the boards, and the policy makers in Pakistan. To begin with, corporations ought to be interested in formulating and sustaining an effective dividend policy capable of balancing profitability, liquidity, and the expectations of the shareholders. This decision on dividends should not be made solely on financial ability, but on the governance structure to adequately dispose of the dividend decision. Second, the concept of leverage must be optimally employed, and its ability to maximize returns and reduce risk is noted by a combination of appropriate governance systems. Third, companies are encouraged to enhance corporate governance procedures, particularly on the size and the structure of the board of directors, because it is positively related to financial decision-making and performance of the firm. Regulators have the freedom to provide guidelines or codes that promote big, well-endowed boards that have the power to oversee complicated financial choices in listed companies.

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LIMITATIONS

Despite the good outcomes, the study has several limitations. First, analysis relies on secondary panel data of the listed companies in the Pakistan Stock Exchange, which might restrict generalisation to other sectors or countries. Second, there was no consideration of various areas in corporate governance, such as independence of the board and its various committees, gender, ownership diversity, and using board size as a proxy for corporate governance. Relationships may be affected by these factors as well. Third, the research is an observational study, and this restricts the ability to draw definite causal relationships. There is no possibility of ruling out the endogeneity problems (the better governance structures may be attracted by better-performing firms). Lastly, the research is confined to short-term financial performance (ROA) and does not consider measures of long-term financial performance and other long-term financial performance non-financial outcomes.

SIGNIFICANCE

The contribution of the study to academic literature and even at a practical level of management is in several ways. Theoretically, it contributes to the knowledge of the nexus between financial choices and corporate governance in the emergent market situation, i.e., the case of Pakistan. It demonstrates that the governance mechanisms, including the board size, are not purely procedural in nature, but they directly affect the effectiveness of the firm's performance and financial policies. In practice, the study has practical implications for managers and boards in making better judgments on dividends and leverage of the company, as well as demonstrating the necessity of good governance structures. To the policymakers, the results emphasize the essence of the existence of corporate governance rules that will enable the process of monitoring and strategic decisions in relation to finance. The study is a theory-to-practice-based study that offers evidence-based information on how firms can enhance their performance using a combination of financial and governance approaches.

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