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# CORPORATE GOVERNANCE UNDER PAKISTAN'S COMPANY LAW: A DOCTRINE LEGAL ANALYSIS

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## Abstract
*The concept, principles and structure of corporate governance in Pakistan is discussed in the abstract which focuses primarily on the Corporate Governance Regulatory Codes issued by Securities and Exchange Commission of Pakistan (SECP), and Companies Act, 2017. The existing legislative framework represents a dramatic change in the legislative paradigm towards greater transparency, accountability and much needed minority shareholder protection. However, with significant statutory amendments, the role of ID and non-exec directors as well as the reporting obligations and gender representation on corporate boards is rising. In the given background of an emerging economy, Pakistan corporate law is making significant efforts towards the harmonization of the home practices with international practices to minimize agency conflicts, build investor confidence and stimulate sustainable growth of the Corporate World.*

## INTRODUCTION
The governance system of a company consists of rules, principles, and practices under which the company is managed, directed, and controlled. The Companies Act, 2017 and the regulations made by are the major legislative pieces of corporate governance in Pakistan. These laws include the responsibilities of directors, safeguard shareholders' rights, fostering transparency, accountability and ethical conduct in business.
Good corporate governance is fundamental to the prevention of fraud, the minimization of conflicts of interest, the enhancement of financial reporting and the confidence of investors in the company analyzed the Corporate Governance structure in Pakistan and the significance of regulatory frameworks to enhance corporate accountability. Likewise examined corporate board characteristics and audit committees, alongside the manipulation of earnings with focus on the significance of good corporate governance.
Moreover, analyzed the relationship between corporate governance reforms and performance of companies in Pakistan. These studies have highlighted the importance of good governance in enhancing good corporate management and sustainable economic growth. But there are still issues like non-compliant laws, lack of disclosure and weak enforcement. Hence, the application of Pakistan's corporate laws is essential to promote

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responsible corporate behavior, safeguard the interest of stakeholders and provide transparency and reliability in the business environment.

## 2. Research Justification

The significance of the research in the context of Pakistan is evident as the verge of the market the predominance could be found of family-owned conglomerates and research is required when comprehended the corporate governance of the market. Such an ownership configuration leads to a switch of the basic agency problem from agency of the managers against agency of the shareholders to agency of the majority shareholder against agency of the minority shareholder. Evaluating the success of the Companies Act 2017 and SECP's Code of Corporate Governance 2019 is a crucial step in determining whether the provisions that have been inserted into the legislation to address local needs exist effectively to address those needs. In conclusion, the need of this research is to assess whether existing compliance mechanisms are truly protecting minority investors, making boards more accountable and increasing transparency to attract much needed foreign direct investment.

## 3. Literature Review

Good corporate governance is the key to enhancing transparency, accountability, financial performance and investor confidence in Pakistani companies. Ali, M., Batool, and Aziz (2025) investigated the association among corporate governance and firm performance and emphasized the significance of good corporate governance in enhancing the performance of organizations. In the same vein, Ali, S., Ahmad, Asghar, and Elsetouhy (2025) explored the relationship between the political involvement of stakeholders and managerial autonomy on corporate performance, highlighting the significance of robust governance mechanisms. Arif et al. (2023) conducted a review of the corporate governance system in Pakistan and revealed the shortcomings and potential recommendations of the current company laws.

Moreover, Azeem et al. (2023) examined the connection between corporate governance, financial constraints and dividend policies, emphasizing the significance of strong monitoring and safeguarding of shareholders' interests. Miao, Khan, Ghauri and Zaman (2023) analyzed the effects of various board attributes, such as board diversity, ownership concentration and audit committees on firm performance. Shabbir, Aslam, Oon, and Amin (2024) investigated the role of board structure, board diversity, and board independence on organizational efficiency.

Furthermore, Shahzad, Luqman, Khan and Asim (2023) conducted a study on the corporate governance and profitability of insurance companies in Pakistan, which revealed that corporate governance is significant for the enhancement of the financial performance of insurance companies. Shakri, Yong and Xiang (2024) explored the impact of corporate governance reforms on firm performance in Pakistan in the context of political instability. Shakri, Yong, and Xiang 2025 also explored the impact of the capital structure on the governance compliance and firm performance relationship in their study. Overall, these studies call for the improvement of the implementation of the Companies Act 2017, compliance with laws and regulations, independent board of directors, and proper accountability systems for bolstering corporate governance in Pakistan.

## 4. Historical Context

The corporate governance practice in Pakistan has been a gradual process which has gone through legal and or regulatory reforms. The Companies Act, 1913 was in force in the early stages, and was preceded by the Companies Ordinance of 1984. In 2002, a significant step was taken by the launching of the Framework of Corporate Governance for the first time in the country, to enhance the accountability of the boards, auditing, and transparency. More recently, in 2012 and 2017, changes have been made to the roles of directors and board independence.

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The Companies Ordinance, 1984, was replaced by the Companies Act, 2017, which created a new law for managing and holding companies to make them more efficient and accountable. Analyzed the governance framework of Pakistan and highlighted the existing governance challenges have discovered that governance reform can enhance firm performance and investor confidence. Also, pointed out the existing issues with enforcement despite legal improvements.

**5. Theoretical Context of**

The current corporate governance regime prescribed in Pakistan's company law, which is mainly governed by the Companies Act, 2017, directed by the Securities and Exchange Commission of Pakistan (SECP) is designed to minimize agency problems and safeguard the interests of several stakeholders. The framework has much in common with the framework of Agency Theory which aims for aligning the interests of shareholders (principals) with those of the corporate managers (agency). One of the main theoretical issues in Pakistan's corporate sector is its high concentration and protection of minority shareholders from the activities of the majority shareholders is a major focus in theory.

The same ideas are incorporated in the corporate governance regulations of SECP (Listed Companies (Concept of Corporate governance) Regulations, 2019) which contain some requirements to enhance financial information disclosure, statutory representation of women or board independence etc. Furthermore, increased focus on legal aspects – of which Stakeholder Theory (with CSR and sustainable aspects) increasingly plays an important role. In the grand design of the theory of Pakistani corporate laws, the ultimate goal is to induce transparency, equitable treatment and investor's confidence both among and across the consumers.

**6. Relevant Laws**

**1 . Companies Act, 2017:** This is the main act of Pakistan governing the companies' affairs. It outlines the powers, duties and rights of the directors, shareholders, financial reporting needs and management responsibilities of a company. It holds people accountable; it renders clarity in business practices.

**2. Listed Companies (Code of Corporate Governance) Regulations, 2019:** These regulations will set the standards for governance of the listed companies, including the responsibilities of the board of directors, the role of independent directors, internal controls and disclosure obligations. These regulations were changed in March 2025.

**3. Securities Act, 2015:** It is a law that deals with securities market and the protection of investors from wrongdoing in the securities market. It helps promote honest and fair business practices and open and acceptable behaviour in the marketplace.

**4. Public Sector Companies (Corporate Governance) Rules, 2013:** These dictate the rules for terms of office, professional management, the responsibilities of boards, risk management and the transparency of decisions in public companies.

**5. State-Owned Enterprises (Governance and Operations) Act, 2023:** This provides a governance framework for state owned enterprises, with emphasis on effective management, accountability, performance monitoring and the use of public resources responsibly.

**7. Challenges**

The deep-seated problems in the context of corporate governance in Pakistan may be identified based on strong legal framework provided under Companies Act, 2017 and Rules of the Securities and Exchange Commission (SECP). The heaviest problem is the heavy concentration of family-owned conglomerates. This control can allow the controlling shareholders to make governance decisions which they choose and to avoid governance structures,

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usually at the expense of the minority shareholders.

Lack of effective Board Independence: The law requires the presence of Independent Directors (INEDs) in the Board, but it is rare that they are independent. Families within the family network are inheritors of people as means of complying with the law in controlling families. This will eliminate any objective board oversight and take away the effectiveness of the required sub-committees. Weak Enforcement and Transparency: SECP's capacity to enforce regulation is limited because of the resource constraints, political changes, huge black market in Pakistan, etc. Lacking a proper sanctions mechanism for unethical behavior, and a satisfactory system of rewards for good governance, compliance is insufficient in financial reporting and there is generally no desire to assure full and transparent disclosures. Professional capacity: There is poor capacity of companies' staff in corporate governance and risk management, particularly. Finally, the transformation from an old system of strict family governance to a culture of genuine, international and competitive accountability in the law of Pakistan is the greatest hurdle in the way.

## 8. Opportunities

Pakistan's corporate governance has been transforming considering the Companies Act, 2017, and ongoing initiatives of the Securities and Exchange Commission of Pakistan (SECP) for improving the regulatory framework that could be a huge boon for the economic and institutional development of the country. Independent Board Evaluation, Disclosures of risk, and rigorous audit requirements as prescribed in international best practices are some of the measures with which Pakistani companies can work to address the trust deficit.

This alignment is crucial to be able to provide a clear, stable market for foreign, institutional investors. The changes in minority shareholders' rights, such as indicating that the SECP has removed the concept of category voting and introduced individual voting and enhanced transparency in the use of proxy, are an important opportunity to eliminate the domination of family-owned conglomerates. This will provide a true representation of minority interests in the company, which will result in equal company decision making. Companies can modernize their corporate cultures with the regulatory drive for sustainability oversight, female board quotas, and anti-harassment policies by incorporating ESG and Diversity. Criteria (ESG) opens opportunities for global green financing and international supply chains.

## 9. Discussion

In Pakistan's context, there is a paradox between the wishes and deeds of corporate governance. While the framework of Companies Act, 2017, and SECP guidelines is largely international, it is generally seen that the implementation of the same is superficial and is limited to what is called 'box-ticking' because of the overwhelming conglomerates that are owned by families. Independent boards are not yet the reality and minority shareholders are often ignored. Development of a deep change in culture and establishment of a proper enforcement mechanism is also required if Pakistan is to have a culture of corporate governance and make it a strategic asset for the corporate world. Transparency has become the condition for sustainable development, foreign investments and is of vital importance to the future of the market.

## 10. Conclusion

The governance structure that is devised in Pakistan based upon the Companies Act 2017 and SECP regulations is an important step towards internationalization and protection of the interest of stakeholders. However, the culture of conglomerates run by families is still a challenge to the actual implementation of these laws and in many cases, it has become a mere formality in how the Boards carry out their duties. Pakistan could benefit from these important elements, but it would be more beneficial for it to extend beyond

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compliance to gain opportunities such as foreign direct investment, integration of ESG principles and sustainable economic growth. To achieve the full potential of its corporate sector, it is essential to step up regulatory enforcement and to create a true culture of transparency and accountability.

**11. Recommendations**

To bridge the regulatory theory and implementation gap in Pakistani company law reforms, the regulators like SECP should enforce more stringent laws to ensure enforcement. SECP should change its 'comply or explain' strategy for compliance with the key governance elements, such as the diligent implementation of the auditing process and the implementation of real independence of boards. To overcome the prevailing malaise of family-owned conglomerates, the selection of independent Directors should be done through dedicated and independent registries like Pakistan Institute of Corporate Governance which will afford independent oversight and independence.

It is also crucial to enable minority shareholders and remove barriers to the participation of minorities, such as through the full digitalization of accountability documents (electronic voting, virtual annual general meetings). Third, there's a need to establish Environmental, Social and Governance (ESG) reporting framework for all listed companies. With these substantive changes, if appropriately backed by some meaningful sanctions for meeting the requirements of procedural box-ticking, Pakistan would have a strong, competitive and transparent business environment.

**12. Research Limitations**

The research on corporate governance has several significant drawbacks based on the provisions of the Pakistani Company Law. Empirical studies are first limited by the fact that they use self-reported information in annual reports which might be more about 'doing something' to meet regulatory requirements rather than about governance. It is difficult, if not impossible, to methodologically gauge the actual degree of board independence and the internal power of the board and the amount of informal decision making, especially with the opacity of family-dominated conglomerates. In addition, there is limited information available that is transparent to non-listed companies and the small and medium ones, which hinders research; it is only possible to do it on publicly listed companies. The problems with such data limitations are that it is difficult to get a clear view of the general picture of the business environment in Pakistan and it is difficult to generalize from it.

**13. Research Implications**

The lessons to be learnt from the research on corporate governance in Pakistan under the Pakistani law are not just limited to the academic sphere; they carry a message for policy change and institutional reform. A study like this for a regulator such as the SECP makes the case that there are real-life gaps between statutory requirements and corporate practices, and this change must occur from a procedural approach to a substantive one. In a family dominated market, it is essential for domestic and foreign investors to know these local dynamics to conduct a proper risk assessment. For the Pakistani firms to avail sustainable funding and market the products in the international arena, it is necessary to establish an authentic culture of accountability.

**14. Future Research Directions**

The future studies of corporate governance in Pakistan should not be limited to the scope of publicly listed companies and should include the large universe of family business and SMEs. The effectiveness of voluntary governance guidelines in these sectors needs further study. In addition, the impact of the CSR governance at the firm level on the CSR overall sustainability reporting and the role of the Environmental, Social and Governance (ESG) frameworks should also be explored. The methodological aspect is that the study will take a cross-sectional to longitudinal and cross-national approach, which will provide a better

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understanding of the effectiveness of the regulation. Finally, the latter choices of corporate communications, such as social networks and electronic disclosures, will reflect more modern methods of communicating with stakeholders.

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