

Corporate governance compliance and disclosure: Insights from Pakistani listed firms



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ABSTRACT

The objective of this study is to examine the impact of corporate governance compliance and disclosure on achieving a sustainable corporate reporting system in a developing country. Specifically, the study evaluates the level of corporate governance disclosure and compliance with the Pakistani Corporate Governance (CG) Code of 2013. A sample of 150 Pakistani firms was selected, and data were collected from their annual reports covering the period from 2014 to 2023. The analysis of the data shows several important findings. Over the ten-year period, Pakistani firms demonstrate a positive trend in corporate governance compliance and disclosure. The level of corporate governance improved after the revision of the CG Code in 2013, which contributed to more sustainable corporate governance practices and reporting. The findings suggest that stronger enforcement and monitoring of the 2013 Pakistani Corporate Governance Code could further improve transparency and sustainability in corporate reporting. Policymakers and regulators may use these results to design targeted reforms that maintain and strengthen the increasing trend of compliance among listed firms. Overall, the study provides empirical evidence of a decade-long improvement in corporate governance compliance and disclosure among Pakistani firms following the 2013 code revision, highlighting the important role of regulatory reforms in promoting sustainable corporate governance practices and improving reporting quality in emerging markets.

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1. Introduction

Investors have lost interest in capital markets due to various scandals in the corporate sector (e.g., Global Crossing, Texaco, and Enron). The old governance structure has proven to be unable to protect investors' rights. Due to this issue, organizations and regulators implement Corporate Governance (CG) codes to regain investors' confidence in capital markets. In 2002, the USA issued the Sarbanes-Oxley Act, which aims to enhance attributes such as transparency, accountability, and responsibility in management. In addition, firms are dedicated to practicing CG codes to strengthen transparency and regain the trust of investors.

The Pakistan Stock Exchange has issued reforms, among which the CG reforms were dominant, which were made to regain investors' trust. Under the Securities and Exchange Commission Act of 1997, a regulatory agency entitled the Securities and Exchange Commission was established to oversee the work and functions of the stock exchange. In March 2002, like other developing countries, Pakistan issued its code of corporate governance, which was considered a major step in developing corporate governance reforms. Both the Securities and Exchange Commission (SECP) and the Institute of Chartered Accountants of Pakistan (ICAP) have put in equal effort to develop corporate governance codes. The UK CG style affects the requirements of corporate governance codes (Tariq and Abbas, 2013). The provisions of governance emphasize three basic areas: disclosure must be good, internal control systems of the company should be strong, and the board of directors should be accountable to stockholders. Later, Khan et al. (2020) studied the level of CG compliance and reported positive trends. However, the CG code was changed again in 2013. Therefore, the question analyzed here is whether the

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new corporate governance provisions that developing countries are applying to raise the level of compliance and disclosure of their firms are also applicable to Pakistani firms. More specifically, it checks the improvement in corporate governance practices in Pakistan after the changes in the Pakistani code of corporate governance were upgraded in 2013.

2. Literature review

Due to the different corporate environments in both developing and developed countries, the literature observes differences in compliance with the provisions of the CG codes. This highly encourages the present study to review prior research that has already been performed, and among developing countries, Pakistan is the focus.

In developed countries, the literature shows a higher degree of corporate governance disclosure (Allegrini and Greco, 2013; Hegazy and Hegazy, 2010; Hussainey and Al-Najjar, 2012; Pass, 2006). For instance, Pass (2006) analyzed 50 listed firms in the UK and concluded that almost 34% of firms wholly utilize all the provisions of the CG 2003 combined code of the UK, while 44% also provide their reasons for not complying with the provisions. Past studies used a small sample of larger firms; therefore, Eisenberg et al. (1998) concluded that the results may not be generalizable. Hegazy and Hegazy (2010) observed the UK combined code of Financial Times Stock Exchange (FTSE) 100 and analyzed the degree of its compliance. It was found that among UK firms, the level of compliance was 70% on average. Hussainey and Al-Najjar (2012) analyzed a higher degree of compliance with corporate governance when using the CG Quotient Index. The results of these studies suggest a higher compliance level of UK firms with their combined codes. In conclusion, the level of compliance with CG is greater in developed countries than in developing countries. The reasons for this can be attributed to the strong economy, culture, and legal system of developed countries. These provide firm support for practicing good CG (Judge, 2011; Salterio et al., 2013).

Due to the varying forms of government in different developing countries, the degree of compliance with CG provisions varies (Samaha et al., 2012; Solomon, 2007). Prior literature (Khan, 2016; Khan et al., 2020; Krambia-Kapardis and Psaros, 2006; Schiehl et al., 2013) suggested that developing countries show less compliance with the provisions of CG. Schiehl et al. (2013) studied the 68 publicly listed companies of Brazil and found that the degree of compliance, analysis, and disclosure was limited to the extent of the executive stock option (ESO) plan. This limited level of compliance with CG motivates researchers to determine the issues that restrict firms from complying with CG provisions. Although CG compliance was compliant with the code of 2002, the updated 2013 code has not been measured extensively.

This study is distinct, with substantial contributions of both a theoretical and practical nature. First, research (Javed and Iqbal, 2007; Javid and Iqbal, 2008; Khan et al., 2020) was conducted on a small scale, with a few companies in a short time span. Javed and Iqbal (2007) analyzed 50 companies for only three years. In comparison, the present research analyzes 150 firms over a period of 14 years, from 2004 to 2017. Second, prior research (Javed and Iqbal, 2007; Javid and Iqbal, 2008) used an index with a small number of provisions of the CG code. Javid and Iqbal (2008) and Khan (2025) made their CG index using only 22 provisions, which does not accurately explain the compliance level with the CG code. In contrast, the present study analyzes 70 provisions of the CG code divided into five sub-indices: (i) the rights of shareholders; (ii) transparency and disclosure; (iii) BOD's or board of directors and shareholders' rights; (iv) committees and internal auditing; and (v) external auditor, internal control, and risk management. Lastly, previous studies (Javed and Iqbal, 2007; Javid and Iqbal, 2008; Tariq and Abbas, 2013) created a CG index using the ordinal method of coding to analyze the degree of compliance. In contrast, for the analysis and to measure sustainable corporate governance, the present research uses a binary coding method to create the Pakistani Corporate Governance Index (PCGI).

3. Research methodology

According to the literature, CG provisions should be studied altogether instead of separately (Ntim et al., 2012). Researchers (Al-Malkawi et al., 2014; Khan, 2025) analyzed CG by creating indexes from national or international codes (Hooghiemstra, 2012). Similar to prior studies, this study uses the CG index to observe CG practices in Pakistan (Ntim et al., 2012). Firm data are available in various ways, including (1) financial reports, (2) prospectuses, (3) investor relations, (4) press releases, (5) conference calls, (6) websites, among other sources, (7) analyst presentations, and (8) interim reports. This study uses financial reports to obtain data regarding CG information among all the given resources.

3.1. PCGI provisions and coding

The Pakistani Corporate Governance Index (PCGI) was developed by the researcher following the approach in Khan et al. (2016b). It consists of 70 provisions derived from the 2013 Pakistan Code of Corporate Governance (PCCG) and categorized into five sub-indices: (i) Rights of Shareholders, (ii) Transparency and Disclosure, (iii) Board of Directors' Rights, (iv) Committees and Internal Auditing, and (v) External Auditor, Internal Control, and Risk Management. Each provision was coded on a binary scale, assigning "1" if the company disclosed the provision and "0" if it did not. The binary approach allows for an objective measurement of

compliance and avoids the subjectivity inherent in weighted or ordinal coding.

Following Khan et al. (2016b), the binary coding scheme was chosen for five main reasons: (1) there is no theoretical guidance on weighting governance provisions; (2) the study measures compliance rather than disclosure quality; (3) binary coding minimizes researcher bias; (4) it enhances replicability and comparability with prior studies such as Allegrini and Greco (2013) and Samaha et al. (2012); and (5) it suits developing-country contexts where professional weighting systems are unavailable. Appendix A lists all 70 CG provisions used to construct the PCGI and their corresponding sub-index categories, following the structure presented in Khan et al. (2016a).

3.2. Reliability of PCGI

Reliability is a concern that is assessed based on validity and reliability (Uma and Roger, 2003). Similar to previous studies (Allegrini and Greco, 2013), Cronbach's alpha was used to check the PCGI's reliability. Allegrini and Greco (2013) suggested that an instrument is consistent if Cronbach's alpha value is greater than 0.80. As shown in Table 1, the instrument is highly reliable because the alpha value is 95.8% and is based on standardized data. Table 1 shows that if any item is deleted, all the Cronbach's alpha values are less than the standardized item value, which indicates that if any item is deleted, it will adversely affect the PCGI's reliability.

Table 1: Reliability analysis of PCGI (Cronbach's alpha)

PCGI dimension	Cronbach's alpha (if item deleted)
Rights of shareholders	0.949
Transparency and disclosure	0.950
Board of directors' rights	0.950
Committees and internal auditing	0.950
External auditor, internal control, and risk management	0.940
Overall Cronbach's alpha	0.958

4. Empirical findings

In this section, the descriptive statistics of compliance with the PCCG are discussed, which answer the following questions: (i) What is the mean level of compliance with the PCCG 2013? After the PCCG 2013, up to what level have Pakistani firms improved their CG practices?

The level of compliance and disclosure was observed from a sample of 150 Pakistani firms for 10 years, from 2014 to 2023, using the PCGI constructed by the researcher. The index has 70 provisions, made from the PCCG 2013. Table 2 shows the compliance and disclosure levels of Pakistani firms with CG provisions over ten years. The results of each provision varied between 0% and 100%. A provision of 0% indicates no compliance by any firm within the study duration, while 100% indicates that firms are perfectly complying with CG provisions. Based on the full sample, the PCGI's findings yielded two important results. Firstly, as

shown in Table 2, in the ten years from 2014 to 2023, the compliance and disclosure level has improved. The mean score shows an increasing trend in Table 3, as the mean score of PCGI in 2014 was 54.92%, which increased to 90.5% in 2023, showing a good increase over the period of 10 years (Ntim et al., 2012). This trend of improvement in compliance and disclosure is the same as that of developing countries. Also, Table 2 shows an increase in the average compliance and disclosure level over the period of ten years and is consistent with prior studies conducted in other emerging economies (Adelopo, 2011; Albu and Girbina, 2015; Ntim et al., 2012; Tsamenyi et al., 2007). Tsamenyi et al. (2007) showed a 52% mean compliance and disclosure level among Ghanaian firms. Likely, Albu and Girbina (2015) suggested that Romanian firms show a high level of compliance and disclosure. All tests confirm that increases in compliance are statistically significant. The analysis aligns with the validation approach used in literature (Khan, 2025).

5. Discussion

The results reveal that the compliance in terms of corporate governance (CG) of Pakistani listed companies improved significantly and persistently between 2014 and 2023. The Pakistani Corporate Governance Index (PCGI) increased to more than 90 percent in 2023, compared to about 55 percent in 2014, which demonstrates that it has become more responsible for the Code of SECP in 2013. This is an encouraging trend because the trend in the emerging economies is that consistent regulation can enhance the governance framework (Haniffa and Hudaib, 2006; Javid and Iqbal, 2010). The drastic rise in the Committees and Auditing and Disclosure and Transparency sub-indices since 2017 continues to underscore the effects of the enforcement circulars and listing rule changes introduced by the SECP and the Pakistan Stock Exchange.

This trend seems to be motivated by three significant factors. First, the enforcement of the regulations after the 2013 revision of the Code provided compliance pressure in the form of mandatory disclosures and penalties. Second, the market discipline was enhanced when institutional investors and credit rating agencies started to consider governance quality in their rating, which encouraged firms to improve the board independence and audit process. Third, internalization of the governance norms changed formal compliance to the actual use of the best practices, which is in line with the concept of normative legitimacy presented by Aguilera and Cuervo-Cazurra (2009), due to organizational learning and increasing professionalization of boards. These enhancements hold the research question regarding the role played by compliance in sustainable governance. In this case, sustainability does not have anything to do with environmental measures, but instead the permanency and entrenchment of governance frameworks,

decreasing managerial discretion, and raising accountability (Shleifer and Vishny, 1997). The steady increase in all the sub-indices indicates that the governance reforms are being institutionalized in the corporate operations, and the world experience shows that an effective legal framework and investor protection are enhancing the governance outcome. Some of them are still weak, like Monitoring Compliance with Best Practices and

Insider-Trading Disclosures, which made slower improvements. These results indicate that special interventions in SECP should be implemented, such as training and clear compliance scorecards. All in all, the ten-year enhancement indicates that a mixture of long-term regulatory control, coupled with market incentives and learning of managers, can contribute to long-term corporate governance in developing economies such as Pakistan.

Table 2: Level of compliance and disclosure

No	Provision	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Avg
1	Directors categorization	72.4	79.3	84	86.7	96	97.4	100	100	100	100	91.58
2	Board composition (independent)	19.1	16.7	19.3	21.3	40	53.9	85.1	89.3	88.5	90.7	52.40
3	Minority directors	42.7	44.7	50.7	51.3	54.7	59.7	75.7	77.8	79.2	79.3	61.59
4	Exec vs non-exec ratio	81.6	86.7	90.7	95.3	98	98.0	97.3	97.9	97.3	97.3	94.02
5	Directors in other boards	67.7	75.3	81.3	84.7	85.3	85.1	88.5	88.5	88.6	88.7	83.39
6	Max directorships	75	86	90.6	93.3	94.7	95.5	96.6	97.3	97.3	97.3	92.37
7	Non-exec chairman	53.3	58	62.7	65.3	69.3	72.7	75.7	76.5	75.1	75.3	68.40
8	Chairman/CEO roles	27.6	31.3	35.3	37.3	39.3	42.2	48.6	49.6	51.0	54	41.65
9	Duality role	41.4	44.7	48.7	48.7	52	54.5	54.0	55.0	56.3	58.7	51.41
10	Director training	25.7	38	43.3	46.7	55.3	57.7	59.5	61.1	61.7	62.7	51.17
11	Board meeting disclosure	81.6	90	93.3	97.3	98	98.1	99.3	98.7	99.3	99.3	95.49
12	Meeting frequency	78.3	86	91.3	95.3	96.7	99.3	99.3	99.3	99.3	99.3	94.17
13	Taxpayer director	60.5	82	90	94.7	98	97.4	97.9	97.9	97.9	98	91.45
14	No defaulter director	60.5	81.3	89.3	94	98	98.0	97.9	97.3	97.3	97.3	91.12
15	Directors brokerage involvement	55.9	76	84	88	93.3	93.5	97.3	96.6	96.6	96.7	87.80
16	Ethics statement	57.6	75.3	84.7	88.7	93.3	94.2	97.3	97.9	97.9	98	88.50
17	BOD duties	61.2	82	90.7	95.3	98	97.4	97.9	97.9	97.9	98	91.65
18	Future outlook	67.1	83.3	89.3	91.3	92.7	92.9	95.9	95.9	95.3	95.3	89.92
19	Audit committee existence	13.2	17.3	18.7	25.3	75.3	81.2	92.6	94.6	94.6	94.7	60.75
20	Committee composition	11.2	14.7	16	23.3	73.3	79.9	93.9	95.9	95.9	96	60.03
21	Committee meetings	10.5	12.7	15.3	20	68.7	76.6	95.9	96.6	96.6	97.3	59.04
22	Attendance directors	11.2	12.7	14.7	19.3	64.7	73.4	93.2	95.3	95.3	96	57.57
23	Committee member names	12.5	16	18	24	74.7	81.2	95.9	96.6	96.6	97.3	61.29
24	Audit committee disclosure	67.8	85.3	94	96.7	98.7	99.4	100	100	100	100	94.18
25	Min audit members	62.5	82	91.3	94.7	97.3	97.4	97.9	97.9	98.7	98	91.79
26	Non-exec chairman committee	56.6	74	82	86	89.3	93.5	93.9	94.6	94.6	94.7	70.8
27	Non-exec majority	59.9	78.7	86	90.7	94.7	95.5	95.9	95.9	95.9	96	73.7
28	Committee meetings yearly	57.9	76.7	84.7	89.3	93.3	94.8	95.9	97.3	97.3	97.3	72.9
29	Attendance meetings	53.3	73.3	82.7	87.3	89.3	89.6	92.6	93.3	93.3	93.3	70.1
30	Financial review	54.6	73.3	84	86.7	88	88.9	94.6	94.6	94.6	95.3	69.9
31	External audit review	29.6	42	50	54	56.7	60.4	59.5	59.0	59.7	62	42.5
32	Secretary appointment	5.26	5.33	6	6	8	11.7	15.5	14.8	14.1	16	10.2
33	AGM notice	61.8	80.7	88.7	94.7	96.7	96.1	99.3	99.3	99.3	99.3	76.1
34	Timely AGM	59.2	79.3	86.7	94.7	96.7	96.7	98.6	99.3	99.3	99.3	74.9
35	AGM within 4 months	59.9	79.3	88	94.7	96.7	96.7	98.6	98.7	98.7	99.3	75.0
36	AGM location	56.6	76	84.7	90	94	93.5	96.6	99.3	99.3	98.7	72.8
37	AGM details	59.2	79.3	88	94.7	96	96.7	99.3	100	100	100	74.7
38	Proxy rights	59.9	79.3	88.7	94	96	96.1	98.6	98.7	98.7	98.7	74.6
39	Ownership disclosure	68.4	82.7	92	96.7	98	98.1	98.6	98.7	98.7	98.7	79.1
40	CEO ownership disclosure	53.3	66.7	74	78	79.3	80.5	81.8	83.3	84.6	84.7	63.9
41	Shareholding >10%	68.4	82	89.3	90.7	86	85.7	87.2	88.6	91.9	90.7	73.5
42	Going concern disclosure	70.4	86	90.7	93.3	94.7	94.8	95.3	95.9	95.9	96	78.9
43	Tax disclosure	32.9	39.3	42.7	42.7	43.3	43.5	45.3	46.3	45.6	48	36.9
44	Cash flow disclosure	55.9	66.7	74	76	80	81.2	85.1	86.6	86.6	88	65.1
45	6-year data disclosure	59.2	78.7	89.3	91.3	95.3	95.5	95.9	95.9	95.9	96	72.9
46	Deviation disclosure	19.1	22.7	24.7	26	27.3	27.9	30.4	29.5	28.9	29.3	21.9
47	Shares trading disclosure	23.7	30	31.3	32	33.3	34.4	37.2	36.9	36.9	36.7	27.1
48	Strategy disclosure	61.2	79.3	88	90.7	95.3	95.5	98.6	98.7	98.7	98.7	74.4
49	CG compliance statement	63.8	82	92	94.7	98	98.1	99.3	99.3	99.3	99.3	76.9
50	Dividend policy	74.3	86.7	93.3	95.3	98.7	98.7	100	100	100	100	83.8
51	Related party disclosure	75	82	84	88	89.3	89.6	92.6	93.9	95.3	96	79.7
52	Director remuneration	82.9	87.3	91.3	93.3	95.3	96.1	97.3	97.3	97.3	97.3	88.5
53	Effectiveness	69.1	82.7	91.3	94	96.7	97.4	97.9	98.7	98.7	98.7	92.51
54	Risk disclosure	69.1	84	91.3	94	96.7	97.4	98.6	98.7	98.7	98.7	92.71
55	Risk policy	66.4	84.7	92	94.7	97.3	98.1	100	100	100	100	93.32
56	Internal control review	64.5	82.7	91.3	95.3	97.3	98.1	99.3	99.3	99.3	99.3	92.65
57	Financial review auditor	19.3	32	46.9	58.4	64.5	84.7	92	96	98	98.1	93.05
58	Financial approval	68.4	86	93.3	96	98.7	98.7	100	100	100	100	94.11
59	Book maintenance	73.7	87.3	94	96.7	98.7	98.7	100	100	100	100	94.91
60	Accounting policies	72.4	86	93.3	96.7	98.7	98.7	100	100	100	100	94.57
61	IAS compliance	71.0	85.3	93.3	96.7	98.7	98.7	99.3	100	100	100	94.31
62	Auditor rating	68.4	82.7	90.7	94	96	96.1	97.3	97.3	97.3	97.3	91.71
63	IFAC ethics compliance	65.8	82	90.7	95.3	96.7	97.4	98.6	98.7	98.7	98.7	92.25
64	IFAC duties	63.8	82	91.3	95.3	97.3	97.4	99.3	99.3	99.3	99.3	92.45
65	Auditor at AGM	51.3	70	77.3	83.3	85.3	87.7	92.6	92.6	93.3	94	82.75
66	Audit CG statement	64.5	82.7	89.3	94	96.7	96.7	98.6	98.7	98.7	98.7	91.85
67	Semiannual review	61.8	80.7	88.7	92.7	95.3	94.5	97.9	99.3	99.3	99.3	91.06
68	Audit within 4 months	62.5	80.7	90	96	98	98.1	100	100	100	100	92.52
69	Statutory compliance	59.2	76	86.7	92.7	96	96.8	98.6	99.3	100	100	90.53
70	Best practices monitoring	27.6	34	40	46	48.7	54.5	64.9	71.8	74.5	76	53.80

Table 3: Overall compliance trend (PCGI)

Year	Compliance (%)
2014	54.9
2015	68.0
2016	74.6
2017	78.3
2018	84.4
2019	85.8
2020	89.4
2021	90.0
2022	90.1
2023	90.5
Average	80.61

6. Conclusion and recommendations

The research paper evaluated the continuity of compliance of corporate governance (CG) in 150 Pakistani listed companies in the years 2014-2023 based on the Pakistani Corporate Governance Index (PCGI), which is a compilation of 70 provisions of the 2013 PCCG created to measure such compliance. The findings reveal that compliance and disclosure practices have improved significantly and statistically, which confirms that reforms after 2013 have enhanced the structure of governance and the transparency mechanisms. This positive trend indicates the positive impact of the Securities and Exchange Commission of Pakistan (SECP), the Companies Act 1984, and the Pakistan Stock Exchange in terms of improving the enforcement and monitoring. The results indicate that the UK-style comply or explain policy that is implemented in Pakistan has been appropriate to facilitate sustainable governance within the emerging-market setting, as earlier studies had shown (Aguilera and Cuervo-Cazurra, 2009; Ntim and Soobaroyen, 2013).

The compliance trend is also on the rise, and it is also an indication that, in the lack of strict legal implementation, improvement can be achieved through voluntary compliance with the codes of governance. Nations that do not have a properly structured governance code are thus urged to implement or adjust the framework of those to suit the locals. The research, however, finds differences across firms, especially between large and small firms. Small and medium-sized enterprises (SMEs) have financial and capacity limitations that make it difficult to fully adhere to CG provisions. Therefore, a tiered or adaptable compliance system is suggested in the developing economies to give the smaller firms time to improve their standards of governance without necessarily incurring high costs.

As per the empirical findings, the paper proposes a number of practical suggestions that can be taken by the regulators and policymakers. SECP is to set up the public governance scorecards to compare the performance of compliance, arrange training sessions of audit committee members and board secretaries, and focus on the weaker areas, i.e., Insider-Trading Disclosures and Monitoring Compliance with Best Practices. In addition, the regulators of the stakeholders, independent directors, and listed firms should have better coordination to enable the leadership to regularly

implement the governing practices and ensure continuous improvement.

Lastly, this study recognizes some limitations that give future studies orientation. The sample and the period can be extended, and comparative assessments of the financial and non-financial sectors can provide additional information. Future research can also create weighted or ordinal compliance scales, combine more external sources of information than annual reports, and involve non-listed companies to improve the generalizability. CG stakeholders, CG officials like SECP and PSX, could be further interviewed to gain insight into the obstacles to enforcement and the effects of the reform. Comprehensively, the results carry both theoretical and practical implications since they show that sustained regulatory involvement, market discipline, and institutional learning, as a combination of these elements, help to establish sustainable corporate governance in the developing world economy, such as Pakistan.

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Compliance with ethical standards

Conflict of interest

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