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A Review of the Corporate Governance Structure of Pakistan

Kashif Arif[1], Che Ruhana Isa[1] and Mohd Zulkhairi Mustapha[1]*
1-Faculty of Business and Economics, Universiti Malaya, Kula Lumpur, Malaysia
*Corresponding Author: zulkhairi@um.edu.my

ABSTRACT

The purpose of this paper is to review the corporate governance structure of Pakistan and identify the challenges and opportunities within the context of the country. The objective is to highlight the gaps in existing governance frameworks. The study provides an overview of the corporate governance regulations in Pakistan and underlines the urgent need for research in this area. This research identifies the specific challenges and opportunities that can assist in developing more stable governance practices and regulations. It examines the effectiveness of existing regulatory mechanisms, and develops strategies to improve corporate governance practices in various sectors. Good corporate governance strategies promote transparency, accountability, and reliability of the financial market, which are crucial for economic growth and investor confidence. The findings validated that efficient corporate governance builds confidence in the business community and promotes sustainable economic growth and development. The corporate governance detailed structural analysis provides substantial theoretical implications for policymakers to formulate policies for ease of doing business in Pakistan.

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INTRODUCTION

The most widely used definition of corporate governance is "the system by which companies are directed and controlled" (Cadbury, 1992). Corporate governance is a set of rules, regulations, and procedures that govern how a company's board of directors oversees and regulates its operations (Tibiletti et al., 2021). Corporate governance is an organizational framework that includes rules, procedures, and management framework to drive and regulate management in order to fulfill the shareholders' and other stakeholder needs. Corporate governance plays a crucial role in ensuring that companies operate effectively, transparently, and with integrity (Agrawal & Knoeber, 2021). It helps to mitigate risks, protect the interests of shareholders and stakeholders, and maintain the confidence of the public and financial markets (Z. Wang et al., 2021). Effective corporate governance promotes accountability, fairness, and logical decision-making which builds a positive reputation and attracts investment (Gillan & Starks, 2020).

In the context of Pakistan, corporate governance is particularly important for promoting the growth and sustainability of businesses. Strong governance strategies help to prevent reputation-endangering fraudulent activities which can damage a company's reputation and financial stability (S. Ali et al., 2021). Good governance practice strengthens the trust bond with both national and internal business community and attracts investment from domestic and foreign sources (Saleem et al., 2021).

Corporate scandals in Pakistan, including the OGDCL, NICL, Pakistan Railways, AkzoNobel Pakistan, PSX, SNGPL, KESC, PIA, Adamjee Insurance, PTCL, Lucky Cement, TCC, Masood Textile Mills, Kohinoor Textile Mills, Engro Polymer and Chemicals, MCB Bank, HBL, and PSO, have impeded the economic growth by sabotaging the image. These scandals necessitated the urgent need for the corporate sector to conduct research on developing a business-oriented system in Pakistan. These scandals highlight the lack of transparency, accountability, and ethical behaviour in both state-owned and private enterprises. Therefore, this research lays emphasis on the necessary business code of conducts to revamp the country's reputation. Compliance with corporate governance regulations and best practices is increasingly important, the government is seeking to improve transparency and accountability in the business sector. Pakistan requires tailored governance practices and regulations to overcome specific challenges and enhance the ease of doing business environment.

This study provides an overview of the corporate governance structure of Pakistan which is crucial to establish a baseline understanding of the current state of governance practices in the country and to identify the specific challenges and opportunities that exist within the Pakistani context. The research focuses on identifying gaps in corporate governance frameworks, examining the effectiveness of existing regulatory mechanisms, and developing strategies to improve corporate governance practices in various sectors. Improved governance is crucial for sustainable economic growth and investor confidence. Moreover, it can help to identify areas where improvements are needed, and develop strategies to address them.

Corporate governance is an organizational framework that includes rules, procedures, and management framework to drive and regulate management in order to fulfill the shareholders' and other stakeholders' needs. Moreover, the frameworks attempt to ensure organizations' openness, accountability, and effective decision-making. However, several gaps can undermine these frameworks, including a lack of boards independence, insufficient shareholder rights, poor risk management practices, ineffective executive oversight, a lack of transparencies and disclosure, insufficient board oversight and accountability, inadequate whistle blower protection, and limited stakeholder engagement. To close these gaps, regulatory changes, more monitoring, increased transparency, and the promotion of an ethical and accountable culture are required.

LITERATURE REVIEW

Corporate governance was established in response to large-scale company failures and scandals, such as Enron and WorldCom, that occurred during the last few decades (Dhu & Hbp, 2019). In the last three decades, huge corporate failures have been observed in the business world owing to high-profile corporate cases, resulting in massive corporate disasters (Amankwah-Amoah & Zhang, 2021). The importance of corporate governance structures, standards, and practices has been shown by the recent global financial crises (Almashhadani & Almashhadani, 2022). These high-profile cases sparked heated debates, highlighted the need for the effectiveness of corporate governance, and demanded that it be improved (N. Ali & Khan, 2022).

The effective structure of corporate governance allows shareholders to monitor the operations of management directly or indirectly through the board of directors. An effective corporate governance system safeguards the rights and interests of shareholders while encouraging investment, saving, and economic growth (Nguyen et al., 2020). As a result, corporate governance is becoming more important in both developed and emerging economies (Ahunwan, 2021; Olojede & Erin, 2021).

Corporate governance mechanisms significantly impact corporate function, the perception of red flags (recognizing a situation of adverse selection or moral hazard), as well as reduce imperfect information and enhance the quality and quantity of information published through financial statements (Martins & Júnior, 2020). Transparent and fair corporate policies, board compositions, board structures, enhanced internal control systems, reporting transparency, and successful audit committees can all be used to assess the effectiveness of a board of governance. All of these important areas of corporate governance require ongoing assurance since they are critical for diverse firms in various industries to protect their investors' wealth by employing potential measures to reduce the risk of corporate fraud (Saona et al., 2020).

Corporate governance frameworks are now commonly accepted to have an active role in enhancing business performance and supporting firms in becoming sustainable organizations (Kumar & Singh, 2013). Various measures for strengthening board governance have been proposed, the appropriate size of boards is one of them (Monks & Minow, 1995). Udueni (1999) argued that in order to be effective, board members must have sufficient knowledge of the firm's operations and be able to make autonomous decisions. The structure and composition of board are crucial considerations for sound and effective corporate governance processes, particularly the composition of the board of directors (Saona et al., 2020). As a result, management will be able to better safeguard the rights of shareholders and other stakeholders.

The board of directors is the primary mechanism for monitoring managerial activity (Kostova & Zijl, 2021). According to a widely held belief in corporate governance theory, the board of directors safeguards common shareholders' interests while boosting the firm's value through corporate social performance (Buono & Park, 2021). The board's effectiveness can be a tool for safeguarding shareholder wealth and meeting all stakeholders' need. Moreover, the board's oversight minimizes managers' opportunistic behavior (García-Sánchez et al., 2019). The system of corporate governance is enriched with the attributes of value creation and the attributes of value destroying that depends more on management how to facilitate value integration (Liu et al., 2019). Corporate governance also offers improved organizational structures and functional capabilities while leading towards competitive advantage (Nasrallah & Khoury, 2022).

The qualities and structure of board is considered as the most essential component of corporate governance (Rizwan & Chughtai, 2022). Majority of literature supported that the composition of the board has an impact on a company's general operations, shareholder wealth, and financial worth (Darko et al., 2018). Board composition, in terms of diversity, gender, size, independence of directors, nationality, and duality, is considered to influence the effectiveness of board monitoring. Given that competent management is vital for economic success from all viewpoints, corporate governance (CG) has long been the interest of business administration researchers. Some studies have looked into the impact of the board composition on the company's value, focusing on certain characteristics of the board including the number of executive and independent directors (Tibiletti et al., 2021).

Corporate governance has been defined by numerous studies (Buallay, 2019; Zaman et al., 2020). Corporate governance can be classified as "broad" or "narrow". The classification is mainly dependent on whether CG is focused just on shareholders or on all stakeholders of the organization. If the CG system focuses solely on the shareholders, it may be described as "narrow" but if it is believed to suit the broader interests of a range of stakeholder groups, it is called "broad." (Tommaso & Gulinelli, 2019).

When the firm is accountable to all the stakeholders, this wide CG structure is known as "Stakeholding," whereas a restricted CG structure is known as "Shareholding" since companies are primarily responsible and accountable to their shareholders. These frameworks differ legally based on country of origin. Shareholding structure is common in US, UK and also in Pakistan with common law origin (Tariq et al., 2022). Whereas the 'Stakeholding' CG structure is commonly practiced in Asian and European countries like Germany and Japan with Civil or Scandinavian origin (Bae et al., 2018). The current study uses the definition of corporate governance provided by (Cadbury, 1992).

Genesis of corporate governance in Pakistan

Corporate governance in Pakistan is primarily based on a shareholding model based on common-law and British corporate law before the Government of Pakistan appointed a company law commission in 1959 working under the Ministry of finance, namely Corporate Law Authority (CLA) (Shahid et al., 2019).

In 1989, the Securities and Exchange Ordinance (SEO) was enacted for investor protection as a basic securities law. The SECP was established as a new institution in 1999 under the SECP Act. The SECP was primarily intended to regulate the stock market. It also works as the regulatory body for non-banking financial institutions. Moreover, it oversights external service providers including brokers, chartered accountants, and credit rating agencies. The first CG code was cooperatively developed by the SECP and ICAP in March 2002 (Ullah et al., 2021). It was the major development in relation to the corporate governance reforms in the country. The first code of CG provided by SECP is largely influenced by the governance regulations of the UK (Fatima et al., 2019). There are two main reasons for this argument. First, Pakistan was a British colony before independence and being a commonwealth country, Pakistan is historically linked with the UK. Another reason is that emerging economies like

Pakistan need to adopt commonly accepted CG standards by making themselves globally competitive to attract foreign direct investments (Nasir & Abbas, 2021).

Corporate Governance Model in Pakistan

For the regulation and governance of companies in Pakistan, the Companies Ordinance (CO) was issued in 1984 and Security and Exchange Ordinance was issued in 1989. In 1999, under the SECP Act, SECP was established. The SECP performs supervisory functions such as issuing equity and debt securities, brokers, and takeovers for the stock exchange. For the fulfillment of that purpose, a join effort was made by the SECP and ICAP and in March 2002, the SECP presented Pakistan's first code of corporate governance (M. Y. Khan et al., 2020).

The Corporate Law Authority (CLA) was restructured as SECP in 1997 as part of the ADB's Capital market development plan. Previously it was attached as a department of the Ministry of Finance. Furthermore, the Pakistan stock exchange (PSX) was established on January 11, 2016, following the merger of the Karachi, Lahore, and Islamabad stock exchanges.

The External Corporate Governance System

Pakistan's external corporate governance (CG) system. It consists of major regulatory bodies and enforcement agencies mainly responsible for the enforcement of company regulations. These laws and regulations must be followed by the businesses. The external Corporate Governance system in Pakistan consists of Ministry of Finance (MOF), the Security and Exchange Commission of Pakistan (SECP), the State Bank of Pakistan (SBP) and the Pakistan Stock Exchange (PSX) (Arslan & Alqatan, 2020).

The Security and Exchange Commission of Pakistan (SECP)

In 1999, SECP was established as a successor to the former Corporate Law Authority (A. Khan et al., 2013). Under the direction of the Asian Development Bank (ADB), the Corporate Law Authority was undertaking a reformation process that began in 1997 with the objective of developing the capital market. The SECP Act was enacted by the parliament in December 1997. By this law, SECP started working as an autonomous body in January 1999 (Bashir & Sufi, 2021). The primary responsibility of the SECP is to regulate the capital market, the corporate sector, non-banking companies, and insurance companies, as well as oversight external service providers. The primary objective is to build an efficient and strong corporate sector and to foster economic growth by enriching the capital market with comprehensive regulatory values. The SECP has seven divisions, namely: (i) company law division; (ii) securities market division; (iii) insurance division; (iv) specialized companies division; (v) prosecution and legal affairs division; (vi) adjudication division; and (vii) support services division

Pakistan Stock Exchange (PSX)

The PSX is the official stock exchange of Pakistan having a trading office in Karachi. PSX is one of the oldest stock exchanges in South Asia was established on September 18, 1947, it was Pakistan's first formal stock market and was tasked with listing companies and trading shares while safeguarding shareholders' assets. It also provides financial information of the listed companies to investors which help them in informed decision-making. As of December 31, 2021, there have been total 531 companies listed and distributed in 36 sectors/groups of industries with an overall market capitalization of Rs.7.68 trillion. The Khaleej Times reports that since 2009, returns on US dollar investments in Pakistani stocks have averaged 26%, making Karachi the world's best-performing stock exchange. The benchmark stock market index for Pakistan has performed third best globally since 2009 (Jabri, 2015).

The Lahore Stock Exchange (LSE) was the largest stock exchange after KSE in the country. The LSE was established in 1970 to meet the needs of the provincial metropolis of the Punjab province. The Lahore Stock Exchange (LSE), which was Pakistan's first stock exchange to use the internet. It was based in Lahore and had 83 members at the beginning. Since its start, and total 519 firms were listed when it merged in PSX. On January 11th, 2016, it was formally inducted into the national Pakistan Stock Exchange.

On October 25, 1989, the ISE was established in Islamabad. It was the newest among the three stock exchanges in the country (Riaz et al., 2020). The main objective was to establish an infrastructure for trade and settlement, equipped with information system and qualified personnel. This would make it possible to conduct fair and orderly market trade. The ISE desired to lead the world in excellence, after receiving its stock exchange license, started trading in July 1992. On January 11, 2016, all three Karachi, Lahore and Islamabad stock markets amalgamated to form the Pakistan Stock Exchange Limited (Riaz et al., 2020).

The Internal Corporate Governance System

The internal CG structure of Pakistan consists of the Companies Act, the listing regulations, and the Code of Corporate Governance.

Companies Ordinance 1984

Companies Ordinance 1984 is undoubtedly the first corporate law and comprehensive piece of legislation. This ordinance provides control, guidance and legal assistance to the business community by providing all the legal rules and regulations for registration and administering the organization in compliance with SECP. According to Shabbir (2012), the Companies Ordinance, 1984 contains various provisions related to corporate governance. Section 160 (3) of the Companies Ordinance, 1984 mandated that the chairman is the only person who can preside at the general meeting of the company. Another provision states that it is the responsibility of the company itself for a proper record of the minutes of proceedings of the annual general meeting.

The Solomon v. Solomon case, commonly known as Salomon v. A Salomon & Co. Ltd., is an important corporate law case. In the United Kingdom, it created the notion of corporate identity and limited liability. Mr. Salomon, the business owner, organized his single proprietorship as a limited liability corporation. When the firm ran into financial difficulties and was forced to liquidate, the court held that Mr. Salomon was not personally responsible for the company's obligations in excess of the value of his unpaid shares. This ruling established that a corporation has a different legal existence from its shareholders and created the notion of limited liability, which means that shareholders' culpability for corporate debts is limited to the amount of money they invested in the firm. The case has had a significant influence on company law across the world in safeguarding the rights of shareholders (Ajmal, 2021).

For listed company's quorum for a board meeting should be at least four or one-third of the total board size (Shabbir, 2012). The ordinance imposes fine of ten thousand rupees if meeting is held without the prescribed quorum and the fine shall be paid by the chairman and the directors.

The Companies Act, 2017

To safeguard the interests of all the stakeholders, it is crucial to build an effective corporate governance framework that ensures accountability and openness within the corporate sector. Moreover, if corporate governance practices are prevalent, it attracts foreign investment and widens the corporate base in Pakistan.

Keeping in view the international best practices, the Companies Act 2017 replaced the previous 33-year old Companies Ordinance 1984 (N. M. Khan & Niazi, 2021). There are some limitations placed on the number of board directors in various categories of corporations under this Act 2017 (Saeed & Faiz, 2018). In the case of a public limited company, if it is listed, shall have at least seven directors, on the other hand, unlisted firms shall have at least three directors. The Act advocates that public limited companies should also have female representation on the board.

The Act explains the criteria for auditor's appointment and qualification for public and private corporations (Saeed & Faiz, 2018). According to the Companies Act, 2017, no person shall qualify for auditor unless a person is a chartered accountant or a chartered accountant firm registered from the ICAP. However, a Management accountant can also be appointed as an auditor, if the paid-up capital is less than three million rupees. The auditor must possess the prerequisite certificate of practice from their respective institute.

There have been numerous significant legal reforms have been introduced in the 2017 Act, in conformity to section 30 of the Companies Act, the memorandum of association and articles of association enable the company to take loans or credit, but previously companies were not allowed (Hassan et al., 2019). Another provision state that no person shall be a director of a company unless he or she holds a National Tax Number as per the requirement of the Income Tax Ordinance, 2001.

A new provision has been introduced covering the appointment of the Chairman of a listed company in order to fulfill the criteria of the Code of Corporate Governance, "within 14 days following the election date, the Chairman of a listed company must be chosen from among the non-executive directors. Unless they are removed, become ineligible, quit, or are disqualified, they will occupy office for three years". The commission may list certain types or classifications of businesses where the chairman of the board and the chief executive officer are not the same. The board is in charge of clearly defining and outlining the roles and duties of the CEO and board chairman. The chairman shall be considered the head and leader of the board and ensure effective role of the board. Another section has been added in conformity to the Code of Corporate Governance, extends the definition of the directorship eligibility which states that a public company in which a director or manager may be a director or through his relatives or any shares in that company. Lineal ascendants and descendants, siblings and spouse has been extended included (Malik, 2017).

The origin of Pakistan code of corporate governance

The 5th All Pakistan Chartered Accountant Conference held in December 1998, presented the idea of the first Code of Corporate Governance Pakistan. This initiative was taken by the Institute of Chartered Accountants (ICAP). It was moved by ICAP to ensure the promotion and development of the corporate sector of Pakistan. A committee was formed consisting of representatives from ICAP, the Institute of Cost and Management Accountants of Pakistan (ICMAP), SECP and Stock Exchanges. The terms of reference were determined by the committee. The committee also decided to identify the various classes of enterprises in Pakistan to whom the corporate governance practices shall apply Malik (2017). The committee discussed some of the issues raised and emphasized that there was a need to look deeper, and a subcommittee of five experts was formed for this purpose. The major issues that this subcommittee had brought to the attention were: (1) The composition of the board of directors; (2) Roles, Duties and obligations of directors; (3) Directors' remuneration; (4) Corporate ownership structure; (5) Auditors; (6) Other issues including role of regulator, government policies, etc Malik (2017).

Code of Corporate Governance 2002

After much deliberation, the committee drafted the first draft in March 2000 and it was necessary for all the stakeholders to give feedback on the draft. About 60 trades were sent to this purpose, and some were also sent to individuals, who were deemed to possess this knowledge. These were on the list: the stock exchanges i.e. Karachi, Lahore and Islamabad; State Bank of Pakistan; Pakistan Bankers Association; Chambers of Commerce; Overseas Investors; Insurance Association of Pakistan; Modaraba Association of Pakistan; Mutual Fund Association of Pakistan; Leasing Association of Pakistan; National Investment (Unit) Trust; Academic Institutions; and certain leading professional firms.

It was presented to the committee in May 2000 after adding all the important things received in the feed-back. The committee was given a presentation in August and the second revised draft was sent to the SECP after further changes. After all the necessary processes, SECP published the First CG in March 2002 (Ullah et al., 2021; Y. Wang et al., 2019) and it is necessitated for all three stock exchanges to enforce this code in all the listed companies. This way, Pakistan got its first version of CG code in 2002 (Saeed & Faiz, 2018).

The first version of the Corporate Governance Code of Pakistan is believed to have some similar UK code provisions as board structure, board of directors' classification (executive, non-executive, independent), directors' training, etc. but there are differences as well like Pakistani Code requires to disclose the size of the board of directors with a minimum requirement of seven directors, minimum four board meetings, and disclosure of directors' shareholding. Though it is very similar to the UK code but still different in terms of its context (N. M. Khan & Niazi, 2021; Ullah et al., 2021).

Code of Corporate Governance 2012

The first CG code in 2002 was introduced by a dynamic Chairman of SECP Mr. Khalid Mirza (Ullah et al., 2021). Those who liked the status quo did not appreciate the move. The implementation of the code received mixed responses, some executed very strongly and some followed in a nominal way. This code strengthened the way Pakistani boards work and helped directors understand their role (N. M. Khan & Niazi, 2021).

This code was a completely new experience for family-based companies, and they considered it an expensive law. Following that, there were a few instances of patchy compliance, but many firms followed the essence of the code. Less interest from publicly held firms in the corporate sector was another problem. Although being a part of the corporate sector, public firms considered themselves as government organizations and often didn't care about specific laws and regulations. The major development that came to light during this period was the establishment of a Pakistan Institute of Corporate Governance (PICG) institution. Since its inception, the company has been working for the education and promotion of good corporate governance practices in the country (Saeed & Faiz, 2018).

In December 2007, the SECP in consultation with the Pakistan Institute of Corporate Governance (PICG), brought improvements in the existing code. A twelve-member task force was created to review existing code and make recommendations for further code improvements. The committee provided various recommendations. Finally, a new improved code came into effect in 2012. The following are the major changes and rationale in the new code.

Board Composition The board composition is very important for any organization. A balanced board is an important feature. This code imposed a mandatory requirement of at least one independent director on the board and the fraction of executive directors not to exceed one-third of the board size (Y. Wang et al., 2019). A reason behind this decision is to create more space for an external viewpoint in the Board room.

Independent Director An independent director is one, who is not affiliated with the listed company, its subsidiaries, holding companies, or any of its linked companies or directors in any way. The director's independence must be put to the test by demonstrating a conflict of interest in his or her judgments (Junaid et al., 2020). If a person worked for a firm during the last three years, or any of its holding, subsidiary, or connected companies, cannot be regarded as an independent director. He must not have direct or indirect involvement in significant business as a partner, shareholder, or director of an organization and has not gotten paid anything in the last three years. Moreover, he is not a close relative of the company's major shareholders, promoters or directors.

Maximum Number of Directorship In this Code, the maximum number of directorships is reduced to 7 from 10. N. M. Khan and Niazi (2021) argued that the task force suggested a limit of five directorships, but SECP increased it after consultation with other stakeholders. The goal was to enable directors devote more time to their responsibilities.

Separation of Power Another important change that was made in this code was that the same person cannot be chairman and CEO at the same time (N. M. Khan & Niazi, 2021). Because when these two positions merge, interests are likely to collide. It is assumed that management is accountable to the board, so how is it possible that the same person is the leader of the board and also of the management? So, these are two different positions and it is in the best interest of the company to be headed by a separate person.

Human Resource and Remuneration Committee In the old code, the setting up of an audit committee was made mandatory so that the company's financial and material assets could be monitored. The new code mandates the creation of a human resources and remuneration committee to oversight the company's human capital. This has led to the possibility that the Board will intervene in management matters. Therefore, the guidelines were provided to limit the role of the board (M. Y. Khan et al., 2020).

Self-Evaluation by Board Board was advised to self-evaluate its performance once a year to improve its performance and will present it to the shareholders in the annual report.

Other Changes Some other changes were incorporated in the CG Code 2012 such as directors training under any recognized programs by the Pakistan Institute of Corporate Governance, Institute of Chartered Accountants of Pakistan and other recognized institutions. Appointment, Terminations and terms of employment are provided of some key positions like chief financial officer, company secretary and the head of internal audit (M. Y. Khan et al., 2020).

Public Sector Companies (Corporate Governance Rules, 2013)

There are about 220 public sector enterprises in Pakistan, which are partially or wholly owned by the state (Saeed & Faiz, 2018). These institutions are called "white elephants" for the Pakistani economy. According to a careful estimate, these institutions make a loss of Rs. 200 billion every year due to inappropriate governance and corruption (M. Y. Khan et al., 2020).

Although the updated code had been presented in 2012, the public sector enterprises did not take it seriously, so SECP need to have a separate code for these entities. Following a consultation and consideration of all stakeholders, a separate set of governance rules for public sector enterprises was issued on March 08, 2013, called Public Sector Companies (Corporate Governance) Rules, 2013.

LISTED COMPANIES (CODE OF CORPORATE GOVERNANCE REGULATIONS, 2017)

In November 2017, SECP issued new regulations that replaced the CCG 2012 for listed companies that aim to align CG practices. The new regulations came up to enhance independent decision-making, and the role and responsibilities of the board were made even clearer and more pronounced. It introduced and supports gender diversity on the board and strengthens the mechanism for transparency and accountability by enhanced disclosure requirements (Asghar et al., 2022; Shahbaz et al., 2020). The promulgation of the Companies Act, 2017, provides a framework of corporate governance, thus the regulations were framed in order to prevent the Act or other legislative provisions from being duplicated, and the rules were created.

In August 2017 the draft for regulations was placed on the SECP website for soliciting public opinion. Consultative sessions were arranged, and feedback from stakeholders was taken. The notable change in the new regulations included "no individual is allowed to hold more than five directorships on the listed companies board at the same time", this was previously seven. However, this was not applicable on the directorship of subsidiary companies (Ullah et al., 2021). The requirement of one independent director was increased to at least two or one-third of the board size so that the board can be given strength in independent decision-making. An independent director is required to submit his consent declaration to act as an independent director in which he assures that he qualifies the criteria given under the Act. The requirement of female representation on the board was additional; hence, at least one female director was required. Moreover, the condition of different personnel for CEO and chairmanship is still present (SECP notifies Listed Cos (Code of Corporate Governance) Regulations, 2017).

The SECP notified some amendments in December 2018 in the previously published Listed Companies' Corporate Governance Regulations, for instance, compulsory the adoption of corporate governance practices for the company and maintaining high ethical standards in performing responsibilities and monitoring the effectiveness of such practices. A new clause has been added that emphasizes a formal mechanism in an organization should be in place for selecting, replacing, and monitoring senior executives and their remuneration and succession planning aligned with the long-term goals of the company. It is also mandated for the company to disclose significant policies on the website including, a risk management policy, a whistle blowing policy, a code of ethics, Corporate social responsibility, environmental social and governance policy (Asghar et al., 2022)

LISTED COMPANIES (CODE OF CORPORATE GOVERNANCE REGULATIONS, 2019)

The significant addition in code of 2019 is 'comply or explain' approach means discretion of company either comply or refuse to comply based on an appropriate explanation as to any obstruction in its compliance. It is the responsibility of the board to use wisely 'comply or explain' principle. All those provisions including word 'shall' have been considered as non-mandatory provisions in the 2019 Code, means either comply or provide an appropriate explanation as to any obstruction in its compliance (Asghar et al., 2022).

The code revised the number of simultaneous directorships in line with section 155 of the Companies Act, 2017, no person shall hold more than seven directorships at the same time. However, not applicable to listed subsidiaries. The number of independent directors remains unchanged as at least two directors or one-third of the total members. The limit of executive directors also remains unchanged from code 2017 as not be more than one-third of the total board members (Asghar et al., 2022).

It is not compulsory now for the company to disclose the code of conduct for the members of the board, senior management and other employees on the website. Previously in the 2017 code, training for at least a female director was mandatory side by side with a departmental head, but this provision is no longer mandatory. The certification for directors under the directors training program, incorporated in the CG Code 2012, is also not compulsory (Ahunwan, 2021).

CONCLUSION

In conclusion, this study offers a comprehensive review of the corporate governance regulations in Pakistan, including the internal and external governance systems and the current state of governance practices. It contributes to enhancing the understanding of corporate governance practices and their role in promoting sustainable economic growth and development.

IMPLICATIONS

This study has theoretical implications and serves as a valuable resource for researchers and practitioners seeking to understand the historical development of the code of corporate governance in Pakistan. A detailed account of the Pakistani corporate governance structure can help the policymakers to enhance regulatory mechanisms for ease of doing business. The study provides a useful reference for those interested in the emerging field of corporate governance and highlights the crucial link between governance structure and strategic decision-making at the organizational level.

CONFLICT OF INTEREST STATEMENT

The authors declared no conflict of interest.

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