

World Governance Indicators and Stakeholder Value: An Empirical Investigation of Non-Financial Listed Firms of Pakistan Stock Exchange

Mazhar Farid Chishti

PhD Scholar, School of Business and Management Sciences, Minhaj University, Lahore. Email: al-farid@hotmail.com

Prof. Dr. Muhammad Kashif Khan

Professor, School of Business and Management Sciences, Minhaj University, Lahore. Email: hod.sbm@mul.edu.pk

ABSTRACT

The purpose of this study is to investigate the relationship between governance indicators and the financial performance of firms in Pakistan. Government effectiveness, rule of law, regulatory quality, political stability, lack of violence/terrorism, and control of corruption are the major areas that have been tested on the stakeholders' value. The data of World Governance Indicators (WGI) has been taken from website of world bank and data on individual firms to look at how institutional quality affects financial performance of non-financial companies listed in Pakistan Stock Exchange (PSX) downloaded from the State Bank of Pakistan (SBP) and the websites of the relevant companies. The data was checked through the regression analysis performed by STATA-17. The results are contrary; no factor is prominent in the case of ROE. The reforms in policy are necessary to promote sustainable business growth in Pakistan by improving institutional bases, improving regulatory prosecution, and increasing transparency. These results determine the difficulty of the governance-performance linkages in developing countries.

Keywords: Word Governance Indicators, ROE, PSX, Stakeholders' Value

1. Background of the Study

In today's aggressive business environment, strong national governance is just as critical as strong corporate governance for effective companies. According to

Kaufmann et al. (2011), the World Bank's WGI provides an ample estimation of governance along six main dimensions: Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law, and Control of Corruption. The WGI serves as a practical model and an demonstration of structural ethical values of leadership, social justice, and organizational ethics (Cataldi, 2024; Fleta-Asín and Muñoz 2023).

The work of WGI demonstrates the need to establish standards for ethical and fair government. The management of a area is significantly altered by its resource allocation and management applies. The idea of expert, the role of markets, and the ethical consequence of economic policy have all been explored by historic philosophers such as Adam Smith and John Maynard Keynes (MacDonald, 2023). Utilitarianism, which WGI shares, places an emphasis on exceeding society at large. When it comes to the effectiveness of government laws in particular, the utilitarian perspective—which selects the enhancement of social welfare is compatible with WGI. All of these factors calculate the degree to which the government generates and retains programs that benefit the general population, such as those that foster economic protection and lessen deprivation. As to the WGI, effective and responsible public institutions are necessary to progressing society's well-being. As stated by Ramanujam and Farrington (2022), WGI is a prime example of these philosophical ideas because it reviews the effectiveness of governments in promoting success and justice.

The WGI has become an important tool for studying company financial performance and for assessing the value of governance in different countries. For the purpose of evaluating national governments, the World Bank established WGI. WGI, which stands for national governance, has a major impact on the way business acts and the conditions in which they activate. The WGI is an important factor in studies that comparison the economic performing of companies and nations. The sources cited are Kaufmann et al. (2011) and Rubosundram and Rasiah (2019).

1.1 Practical Importance of WGI and Relevance to Financial Performance

According to WGI, corporate governance substantially affects financial performance (Malinowska, 2021). It seems reasonable that financial metrics like Return on Equity (ROE) would point to higher profits for companies based in nations with strong

governance systems, as indicated by high WGI ratings. Here, the rule of law and anti-corruption measures taken by the WGI are essential. When the rule of law is tough, businesses know they can rely on agreements to be constantly and fairly prescribed. According to Fassas et al. (2023), when corruption is low, costs and hazards are likewise decreased.

Foreign direct investment (FDA) is additional advantage of good governance that helps businesses increase their profits. Investors are more persuaded to gather to countries with evident laws, stable governments, and low corruption rates, according to the WGI. Businesses are able to grow, widen innovative solutions, and improve their financial situations when capital is smoothly offered to them. Conversely, poor governance discourages investment, which in turn raises operational costs and poses risks that may make it difficult for businesses to sustainably increase their financing (Koeswayo et al., 2024; Dobrowolska, et al., 2023).

1.2 The Non-Financial Sector of PSX

There are different types of industries denoted in the PSX's non-financial sector, which includes textiles, energy, technology, consumer products, pharmaceuticals, and manufacturing, among many others. In addition to funding extensively to PSX's market capitalization, these industries are significant to Pakistan's economic growth. Job creation, export revenue generation, and innovation stimulation are all greatly aided by the non-financial sector of the economy. Because of their direct influence on national productivity and infrastructural development, industries like energy and manufacturing are of great non-financial sector importance. Providing a reliable electricity supply for industrial and residual needs and eliminating the country's energy deficit are two of the most important responsibilities of Pakistan's energy sector, which comprises power producing and distribution businesses listed on the PSX. In 2020, Jamal et al. The financing gained through the PSX allows the textile industry to modernize and increases its worldwide competitiveness. This sector is a significant export for Pakistan.

The importance of PSX's non-financial sector is highlighted by its contributions to raising the bar for corporate governance and fostering innovation. Businesses outside of banking that trade on the Pakistan Stock Exchange (PSX)

follow rules meant to improve the country's business climate by encouraging openness, accountability, and investor protection. According to Mushafiq et al. (2023), non-financial firms in Pakistan own about 80% of the PSX.

The question that will guide this investigation is as follows.

Does the weighted average of the following factors—WGI, which stands for "Voice and Accountability," "Political Stability and Absence of Violence/Terrorism," "Government Effectiveness," "Regulatory Quality," "Rule of Law," and "Control of Corruption"—influence the return on equity (ROE) of NYSE-listed companies in industries other than finance?

In the context of governance, the effects of WGI on financial performance have been carefully assessed (Handoyo, 2023). (Gered et al., 2023; Eldomiaty et al., 2023). Few studies have concentrated on developing nations. Those cases where Spyromitros and Panagiotidis (2022) found a positive relationship between WGI and the financial performance of firms.

The researcher found that when compared to the World Bank's WGI dimensions, few people in Pakistan understood how their businesses were doing financially. Since the non-financial sector makes up over 80% of the PSX, it is the intended focus of this research. Examining how businesses in developing nations, like Pakistan's, fare financially is the driving force behind this study.

Although there is growing research on the relationship between governance and firm performance, there has been little investigation into the combined impact of governance indicators such as Rule of Law, Regulatory Quality, Political Stability, Control of Corruption, and Voice and Accountability on Pakistani firm performance. Much of the prior literature has ignored the interrelated effects of governance in favor of studying specific components. Additionally, prior studies seldom integrated traditional indicators with more all-encompassing performance metrics like as Tobin's Q and EVA. There is also a lack of evidence regarding Pakistan's unique institutional and political environment. Because of this, there is a significant information gap about the interplay between government quality and corporate performance in developing countries like Pakistan.

Because of its fresh ideas and careful approach, this work is significant in the following ways. In order to aid in the planning of long-term economic growth, WGI

conducts research that increases our understanding of the connection between governance indicators and economic stability.

Investors and multinational corporations doing business in developing countries can use the study's results to better understand the risks they face and how to reduce those risks. It is necessary for the developing countries if they want to become more resilient, they should look into how financial achievement relates to governance. Organizations may be able to use this data to better assign resources, manage risks, and develop strength. The purpose of this research is to add significantly to the existing body of knowledge by investigating, with Pakistan as a case study, the complex link between WGI traits and the economic success of developing-world businesses.

2. Literature Review

Businesses out of the financial sector are starting to pay more attention to the relationship between good governance and bottom-line results (Pagkalou et al., 2025). The WGI is a measure of corporate governance that shows how positive the regulatory, legislative, and political climate is in a given location (Kaufmann et al., 2011). Bui and Krajcsák (2024), Haklay et al. (2014), and Kaufmann et al. (2010) all agree that strong governance frameworks may strengthen company performance by lowering risks, cumulative operational effectiveness, and cultivating investor trust.

2.1 Voice and Accountability

One of the six WGIs. Is Voice and Accountability (VA). Freedom of the press, associations, and political participation are all measured along this axis. Virginia fundamentally encapsulates the democratic processes and civil liberties that are vital to inclusive governance. The democratic principle that this VA upholds is that the legitimacy of a government is derived from the concept of the governed. It is a measure of how well a government listens to its citizens and allows them to have a say in decisions through democratic means. To keep this legitimacy, we need tools that let individuals voice their thoughts, shape policy, and have a free press to criticize the government (Arndt, 2008).

H1: Voice and Accountability have a significant effect on the Financial Performance (ROE) of the non-financial sector firms of PSX.

2.2 Political Stability and Absence of Violence/Terrorism

Among the six indicators developed by the World Bank, political stability and the lack of violence/terrorism are essential (Nikzad, R. 2021). According to Kaufmann, Kraay, and Mastruzzi (2010), this metric tracks instances of political violence, terrorism, and other violent or unlawful ways of government instability. There are a lot of different ways this violence manifests itself, including terrorism, war, and civil unrest.

For governments to run efficiently, legislation to pass, and economic activity to thrive, political stability is essential. Meanwhile, domestic and international public trust, investment, and governance can be severely impacted by political instability, such as frequent leadership transitions, civil conflicts, or widespread bloodshed.

H2: Political Stability and Absence of Violence/Terrorism have a significant effect on the Financial Performance (ROE) of the non-financial sector firms of PSX.

2.3 Government Effectiveness

The World Bank has six World Government Index (WGI) aspects, and one of them is government effectiveness. In accordance with Kaufmann (2010), this aspect is utilized to measure the ability of public services, the competence of the civil service, the level of independence from political effects, the reliability of the government's commitment to policies, and the quality of policymaking and accomplishment. The efficiency of a government is defined by its capacity to provide for its residents' conditions and deliver them with public goods and services (Khadka 2021).

H3: Government Effectiveness has a significant effect on the Financial Performance (ROE) of the non-financial sector firms of PSX.

2.4 Regulatory Quality

Regulatory quality is another criterion that the World Bank used while acquiring the WGIs. The target of this part is to look at how good the government can progress and compel rules and policies that ease the private sector grow (Kaufmann et al., 2010). As to Koeswayo et al., (2024), it establishes the government's ability to implement laws in a clear and probable manner, while also promoting commercial functions without disturbing excessive expenses on individuals and companies.

H4: Regulatory Quality has a positive and significant effect on the Financial Performance (ROE) of the non-financial sector firms of PSX.

2.5 Rule of Law

The next component of the World Bank's WGIs is the rule of law. According to Kaufmann et al. (2010), this attribute rates the scale to which means adhere to and trust societal norms, including those relating to the execution of contracts, property rights, the police, and the courts. It also takes into account the chances of crime and violence. To put it simply, the rule of law is the basis for expected and orderly social interactions that is established by the efficient, fair, and constant application of legal frames (Lotto, 2024).

H5: Rule of Law has a significant effect on the Financial Performance (ROE) of the non-financial sector firms of PSX.

2.6 Control of Corruption

Control of Corruption is another aspect of WGI aspects. Corruption, both big and small, is measured along this measurement by how much private interests and elites "capture" the state and manipulate public power for their peculiar gain (Kaufmann et al., 2010). At its core, it uncovers the degree to which corruption pervades a country's populace sector and the efficacy of anti-corruption works (Kharel & Pradhan, 2024).

H6: Control of Corruption has a significant effect on the Financial Performance (ROE) of the non-financial sector firms of PSX.

Notable theoretical frameworks that are directly applicable to this area include Institutional Economics Theory. It examines the relationship between the economic worth of enterprises and the governance of institutions. Thorstein Veblen is considered the father of institutional economics (Drakopoulos & Katselidis, 2023).

The second theory that is relevant to the research is stakeholder theory. For the benefit of corporate stakeholders, Freeman (2010) established the stakeholder theory. Financial, legal, and ethical concerns are just a few areas where stakeholders' requirements should be front and center for businesses.

The following is the conceptual framework

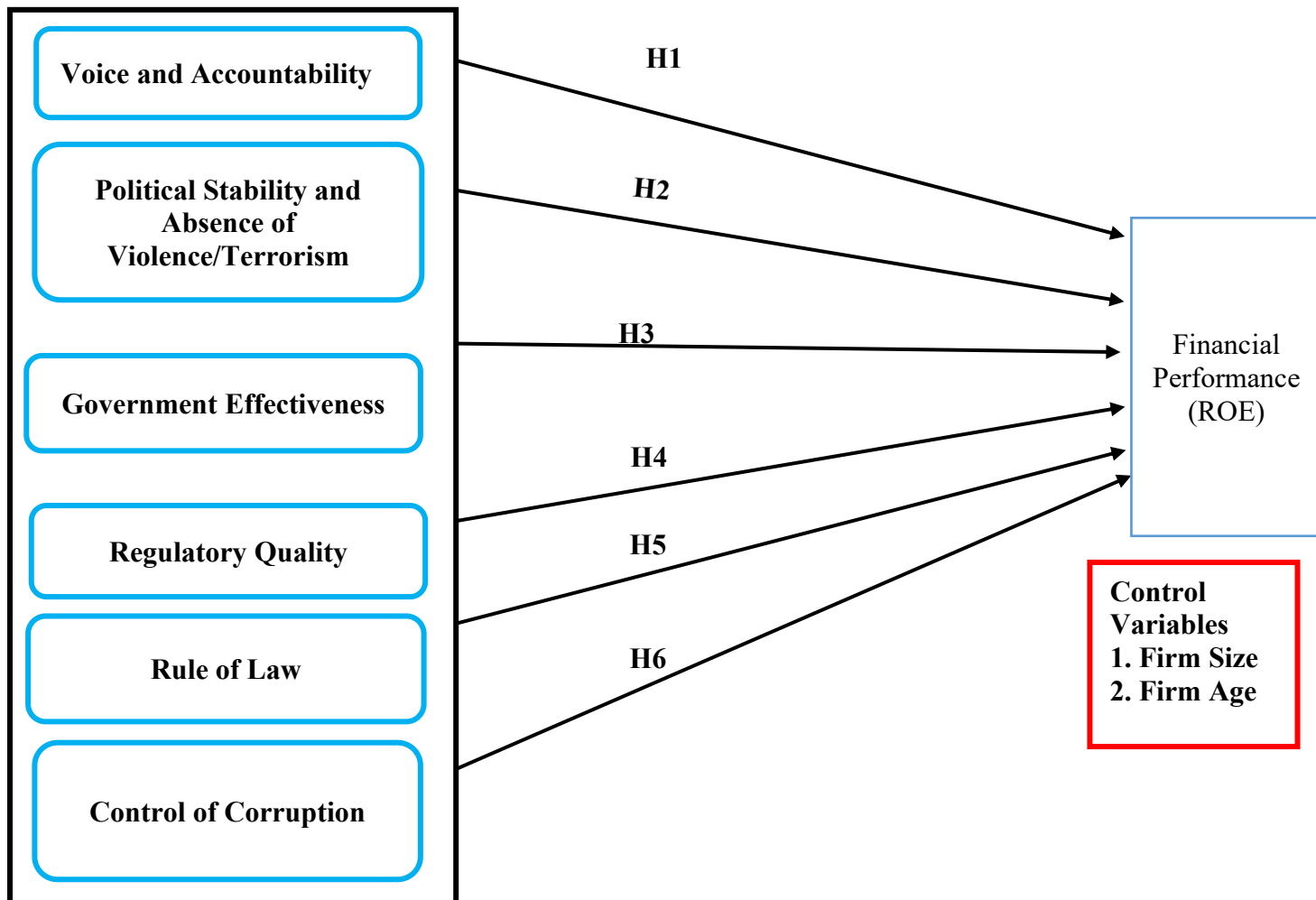


Figure 1: Conceptual Framework

3. Methodology

The research adopts an optimistic epistemological position, placing an emphasis on facts derived from actual observation and measurement as well as on objective reality. That reality does not depend on our subjective interpretations and that it is possible to discover generalizable laws and patterns through scientific inquiry is central to this worldview.

3.1 Population and Sampling

The study's objectives will be established through data collecting from the non-financial companies listed on the PSX. From 2009 (during the financial crisis) through 2023 (the end of the study's term), the researchers looked at data. A total of

398 companies from 36 different industries are considered non-financial entities by the State Bank of Pakistan. The data's accessibility led to the selection of 282 businesses. Using the existing data, the companies will be assessed for their data collection capabilities. Accounting for all PSX-registered non-financial companies is its primary objective. At this time, the PSX is home to 522 registered enterprises. According to Jamal et al. (2024) and Butt et al. (2018), 396 of these are classified as non-financial. We have the records of 282 different businesses.

3.2 Data Collection

In order to determine the sample size, the pertinent data would be utilized. The data is sourced from the following places: the official websites of the listed firms, the Securities and Exchange Commission of Pakistan (SECP), and the State Bank of Pakistan. The information is secondary, cross-sectional, and time series. Using pooled data, researchers combine cross-sectional and time series data. Because of the unstable political climate and increasing worries about governance issues, the author takes into account data obtained after 2008.

3.3 Measurement of Variables, Dependent Variables: Financial Performance as Return on Equity (ROE)

One of the most fundamental metrics in finance, return on equity (ROE) measures how profitable a business is relative to the equity its shareholders have invested. To what extent management is able to turn shareholder funds into profit is revealed by this. Particularly important to investors is return on equity (ROE) since it allows them to compare the company's performance to that of others in the same industry and measures profitability relative to the equity invested in the company.

Return on equity is calculated using the following formula:

The return on equity (ROE) is calculated as net income divided by shareholders' equity. Where: Net income is the remaining profit for a company after all operating costs, interest, taxes, and other expenses have been subtracted. This figure, which is often displayed at the bottom of the income statement, represents the total earnings available to equity holders.

Shareholders' equity is the owners' right to the company's assets once all obligations have been paid off. This line item on the balance sheet includes equity components such as common stock and retained earnings.

Finding the net income for the time period—typically one fiscal year—is the first step in calculating ROE. To account for any changes over time, shareholders' equity is usually averaged over the period by averaging the equity balance at the start and end of the fiscal year (Bodie et al., 2014).

3.4 Independent Variables: WGI

If we are interested to know how good a government is, we must look at the six WGI independent variables, government effectiveness, regulatory quality, political stability, rule of law, lack of violence or terrorism, and control of corruption. The quality of governance has a significant effect on financial performance procedures like ROE in Pakistan, and WGI is important for evaluating this. In addition to collective competence and declining risk, strong authority inspires trust among investors. Political stability, excellent regulation, and control of corruption are some of the WGI traits that indicate this. In Pakistan, where problems with governance persist, better WGI scores could lead to increased profitability (ROE).

3.5 Data Analysis

Panel data is employed in numerous panel regression analyses (including fixed effect and random effect), diagnostic tests, descriptive statistics, correlation analysis, and the framework's proposed mediated relationship. Referring to the works of Hayes and Scharkow (2013), Hayes and Preacher (2014), and Hayes (2009), the following panel regression equations were utilized concurrently after the data's multi-collinearity, heteroscedasticity, and endogeneity issues had been resolved. To complete the estimation, the STATA-17 program will be utilized.

3.5.1 Econometric Equations

The following equation is used to express the relationship between the variables:

$$FP_{it} = \beta_0 + \beta_1 VA_{it} + \beta_2 E_{it} + \beta_3 RL_{it} + \beta_4 RQ_{it} + \beta_5 PSAVT_{it} + \beta_6 CC_{it} + \beta_7 FS_{it} + \beta_8 FA_{it} + e_{it} \quad (1)$$

The variables in the equation that stand for things like "voice and accountability," "government effectiveness," "rule of law," "regularity quality," "political stability," "absence of violence/terrorism," and "CC" all refer to factors like these. Financial performance, abbreviated as FP, is a proxy for return on equity. Both the firm's age (FG) and its size (FS) serve as control variables. The procedures outlined in Equation 1 are followed to investigate the direct impact of the IVs on the DV.

To ensure that the assumptions are consistent with the underlying data structure, a statistical method known as the Hausman Test can be applied to aid in the selection of the most appropriate model. In order to find out if the FE or RE model is more appropriate for a specific dataset, the Hausman Test provides a rigorous statistical basis.

3.6 Panel Regression Analysis: Fixed Effects Model

Panel regression analysis is a type of econometric study that involves looking at data that includes observations over time for multiple entities, including countries, companies, or people. The Fixed Effects Model handles unobserved heterogeneity by allowing entity-specific intercepts and capturing time-invariant properties of the cross-sectional units (like individuals, companies, or countries). This research made use of the Fixed Effects Model.

4. Results and Discussion

4.1. Descriptive Analysis

The descriptive statistics table provides a synopsis of the key financial and governance aspects for a subset of the non-financial businesses listed on the PSX. This section provides a comprehensive analysis of the descriptive results for all variables.

From 2012 to 2023, the behavior of each variable is explained in Table 2. Once the behavior's accuracy has been confirmed, the remaining statistical tests are carried out. Descriptive statistics are used to explain the overall data behavior, which includes the dependent, independent, and control variables.

Table 1: *Summary Statistics*

Variable	Obs	Mean	Std. dev.	Min	Max
ROE	3,948	0.1933	4.7663	-52.4388	188.2004
VA	3,948	-0.8014	0.0634	-0.8774	-0.6934
VA	3,948	-0.8014	0.0634	-0.8774	-0.6934
PS	3,948	-1.8520	0.4857	-2.8100	-1.2652
GE	3,948	-0.7006	0.1034	-0.8294	-0.4384
RQ	3,948	-0.6894	0.0749	-0.8864	-0.5840
CC	3,948	-0.9149	0.1123	-1.0896	-0.8014

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RL	3,948	-0.7654	0.0791	-0.9066	-0.6585
Age	3,948	39.3014	19.3055	1.0000	162.0000
Size	3,887	6.6284	0.8319	3.5441	9.0531

The descriptive statistics for every variable utilized in this study are displayed in Table 1. We start by interpreting the dependent variables' results. With a mean ROE of 0.1933, businesses are making about 19.33 on their equity. The high standard deviation (4.7663), which varies from -52.44 to 188.20, suggests that there is a great deal of variation in the shareholders' returns, with some experiencing large losses and others seeing considerable profits.

The average VA value of -0.8014 indicates that these organizations have lower levels of participation in governance procedures. In every way, the stakeholder's democratic voice is weak. Political stability (PS), which has a higher negative connotation of -1.85, is similarly affected. Both its lowest and highest values are negative as well. Additionally, government effectiveness (GE) has a negative mean of 0.7006, indicating low serviceability, inconsistent policies, and poor institutional quality. The average RQ value of -0.6894 suggests that there is little correlation between the regulatory environment and innovative, sustainable, and ethical company activities. The main characteristics include low transparency, excessive bribery activities, and low assessments of business ethics, as indicated by the CC mean of -0.9149. The negative consequences of the rule of law (RL) mirror the same indication. The results contain imbedded indicators of a lack of accountability and a low commitment to providing protection for public rights. Low commitment to the rights of stakeholders is demonstrated by the poor performance of all governance measures.

According to the descriptive age mean with a wide range of variance between minimum and maximum values, the panel firms have a diverse range of maturity, which could have an impact on the study's findings. The firm's size is no different. The wide range of minimum and maximum indicates that panel firms are diverse in size, even if the panel is made up of listed companies on the Pakistan Stock Exchange, which may be regarded as large companies.

4.2. Correlation Analysis

The correlation coefficients between the following variables are shown in the table:

Table 2

	ROE	VA	PS	GE	RQ	CC	RL	Age	Size
ROE	1.000								
VA	0.006	1.000							
PS	-0.005	0.030	1.000						
GE	0.001	-0.11*	0.203*	1.000					
RQ	0.008	0.438*	-0.15*	-0.52*	1.000				
CC	-0.002	0.260*	0.399*	0.724*	-0.42*	1.000			
RL	-0.002	-0.12*	0.213*	0.757*	-0.40*	0.747*	1.000		
Age	0.040*	-0.03*	0.055*	0.176*	-0.14*	0.178*	0.164*	1.000	
Size	0.029	-0.025	0.040*	0.126*	-0.10*	0.127*	0.116*	0.131*	1.000

Rule of Law (RL), Regulatory Quality (RQ), Control of Corruption (CC), Political Stability (PS), Government Effectiveness (GE), Voice and Accountability (VA), ROE, firm age, and firm size.

ROE's relationship with the majority of governance measures is weak and statistically negligible. The only significant positive association ($r = 0.040^*$) is with firm age, indicating that older firms might have marginally higher ROE because of their collected experience and stable markets. Governance variables, like VA, PS, GE, RQ, CC, and RL, reveal correlations close to zero with company size ($r = 0.029$), directing that there is no clear linear relationship between these governance metrics and ROE.

Strong positive correlations between governance factors ($r = 0.757^*$), GE-CC ($r = 0.724^*$), and CC-RL ($r = 0.747^*$) indicate interdependence and show that effective governance, corruption control, and the rule of law develop simultaneously. Greater regulatory quality and lower levels of corruption are associated with better levels of democratic accountability, as evidenced by the positive correlations between VA and RQ ($r = 0.438^*$) and CC ($r = 0.260^*$).

Possible causes of the contrasting trends in several aspects of governance, such as $RQ-GE = -0.52^*$ and $RQ-RL = -0.40^*$, include divergent institutional priorities or measurement errors. It appears that older firms tend to be larger, as there is a strong positive connection ($r = 0.131^*$) between firm size and age. In

addition, there are small positive correlations between age, size, and governance indices (especially GE, CC, and RL), suggesting that longer-standing companies tend to have more robust governance structures.

4.3. Fixed Effect Model: Impact of WGI on ROE

A firm's profitability in proportion to shareholders' equity is measured by ROE (Return on Equity), and the regression findings in Table 4 examine the relationship between several independent variables and ROE.

A key indicator of profitability is return on equity (ROE), which shows how well a company uses the invested equity basis to produce profits for its owners. ROE gives a shareholder-focused view of performance since it measures returns on the whole asset base and is especially sensitive to capital structure choices. A Hausman specification test was conducted after the panel regression analysis used both fixed-effects and random-effects models. With a probability value of 0.0039 from the Hausman test, the null hypothesis—that there is no systematic difference between estimators—was rejected. Therefore, the more accurate model for calculating the impact of governance variables on ROE was determined to be the fixed-effects specification.

The findings show a mixed pattern. The positive correlation for Voice and Accountability (VA) was roughly 0.126; however, this effect was not statistically significant ($p = 0.53$). This implies that although increased democratic freedoms and inclusivity might, in theory, encourage the accumulation of shareholder value, the correlation is not strong enough to be definitive in the Pakistani context. This result is consistent with research from other developing nations, which frequently demonstrates that there is no assurance or speed at which financial results will follow from participatory governance.

A slight but statistically significant negative coefficient was shown by Political Stability (PS) ($\beta = -0.035$, $p \approx 0.03$). Since stability is usually linked to good investment climates, this result is a little paradoxical. However, the structural rigidities brought about by stable regimes in Pakistan or the equity-eroding consequences of regulatory compliance costs could be the cause of this adverse association. Another view is that companies profit financially from political uncertainty, a behavior that would be severely curtailed in a more stable political

environment.

Government Effectiveness (GE) once again showed a non-significant coefficient ($\beta \approx -0.052$, $p = 0.64$). This implies that improved public service delivery and bureaucratic quality have no discernible positive impact on shareholder returns for Pakistan's non-financial businesses. In environments where informal means are more prevalent than official state institutions, this finding may suggest that there is a mismatch between the resources available to institutions and the outcomes attained by enterprises.

Both Control of Corruption (CC) and Regulatory Quality (RQ) had negatively signed coefficients of roughly -0.155 and -0.15 , respectively; however, these effects were not statistically significant ($p > 0.30$ in both cases). These findings imply that while stricter regulations and anti-corruption initiatives may boost investor trust and transparency, they may not immediately result in quantifiable increases in ROE. The expenses of compliance and adjusting to more stringent control may outweigh the anticipated revenue gains for a large number of businesses of Pakistan. .

With a coefficient of around 0.28 that was marginally significant at the 10 percent level ($p = 0.06$), the Rule of Law (RL) showed a positive correlation with ROE. This suggests that, although the effect is not very large, stronger legal systems, greater contract enforcement, and property rights protection may all help to increase shareholder profits. Businesses in settings with more legal certainty are better positioned to draw investment and safeguard shareholder capital, according to global data.

Firm Size and Firm Age were not significant determinants of ROE among the control variables ($p=0.13$ and 0.87 , respectively). Both external institutional variables and strategic decisions made by individual firms seem to have a greater influence on return on equity. At the 5% level of significance, the fixed-effects model showed that changes in ROE can be accounted for by the combined effects of the governance measures. To be more precise, the intricate institutional processes in Pakistan's non-financial sector are highlighted by the contradictory negative impact of political stability and the moderately beneficial function of the rule of law. Especially in developing nations with unique institutional and legal hurdles, these

findings contribute to the existing literature by demonstrating that increased shareholder wealth is not necessarily associated with enhanced governance.

Table 3: Fixed Effect Model: Impact of WGI Indicators on ROE

ROE	Coef.	St.Err.	t-value	p-value	[95% Conf Interval]	Sig
VA	.1265	.2048	0.62	.5371	-.2766 .5296	
PS	-.0358	.0172	-2.08	.0386	-.0698 -.0019	**
GE	-.0529	.1145	-0.46	.6443	-.2782 .1724	
RQ	-.152	.1705	-0.89	.3736	-.4876 .1837	
CC	-.1553	.2293	-0.68	.4988	-.6067 .2961	
RL	.2825	.1503	1.88	.0612	-.0134 .5784	*
Age	.0012	.0078	0.15	.8795	-.0143 .0166	
Size	-.0868	.0584	-1.49	.1386	-.2018 .0282	
Constant	.5875	.497	1.18	.2382	-.3908 1.5658	
F-test		1.9804		Prob > F	0.0577	

*** p<.01, ** p<.05, * p<.1

In order to gauge the firm's financial soundness and provide guidance for investment decisions, return on equity draws in the company's shareholders. Voice and Accountability (VA) exemplifies how the public is democratically included in the process of choosing the representatives that make up the government. The people is inspired to communicate their opinions and expressions by this voice. The result of VA improves the company's ROE performance and pleases shareholders. But the importance criterion is not met, which is not in favor of

5. Conclusion and Recommendations

5.1 Conclusion

VA raises ROE, but despite democratic participation, the effect is not statistically significant. It is all because of Pakistan's ongoing political unrest, economical instability, and terrorism. ROE is negatively impacted by PS. Insignificant RQ's negative result suggests unfavorable regulatory frameworks, while GE's negative result reflects poor application due to insufficient policy trustworthiness. One factor contributing to CC's unfavorable and inconsequential outcome is corruption, which

is pervasive and erodes investor confidence.

Only RL has significantly increased, which raises shareholder value; all other pertinent governance indicators, however, have failed to produce meaningful and comprehensive improvements in financial performance because of systemic and associated issues in Pakistan's governance environment.

5.2. Recommendations

Based on the empirical findings previously examined in the study of the causal relationships between governance parameters and firm value, the study makes the following recommendations for policymakers, regulators, corporate managers, and investors to improve the financial performance, market valuation, and sustainability of non-financial firms in Pakistan:

Because it significantly improves the internal and external performance of the businesses operating in Pakistan, the study suggests that the rule of law be strengthened. A consistent legal framework, safeguarded property and contractual rights, and an enhanced judicial process through the adoption of a digital legal framework are all ensured by the beneficial relationship between the rule of law and internal performance. A robust rule of law produces long-term value, increased capital inflows, and investor trust.

5.3 Limitations of the Study

The study is limited since it only looks at Pakistan, a developing economy that has problems with structural governance, macroeconomic volatility, and persistent political instability. Given the unique institutional and sociopolitical setting, the findings might not apply as broadly to other countries with different regulatory frameworks, governance systems, and market structures. It is possible to select a panel for a study that represents the country or a specific region.

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