



FORECASTING CORPORATE GOVERNANCE ETHICS: THE IMPACT OF ORGANIZATIONAL BEHAVIOR ON SUSTAINABLE FIRM PERFORMANCE

*Previsão da ética da governança corporativa:
o impacto do comportamento organizacional no desempenho sustentável da empresa*

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ABSTRACT

This study examines the impact of corporate governance mechanisms on sustainable firm performance in China and Pakistan, using the Generalized Method of Moments (GMM) estimator. The study will use data from more than 300 firms listed on the Pakistan and China stock exchanges, covering the period 2011 to 2023, to reflect real phenomena. The findings reveal a stronger, more statistically robust relationship between governance and performance in China than in Pakistan. The results underscore the significance of institutional and cultural context in shaping the effectiveness of corporate governance practices. In China, CEO Duality and board independence separation are significant drivers of firm value and efficiency, while in Pakistan, the effects of governance variables are weaker and less consistent. Recommendations valued for Pakistan to enhance the implementation of governance codes and for China to maintain investors' trust continue to ensure the efficacy of governance and encourage corporate openness and regulatory compliance.

Key Word: Corporate Governance, Ethics Pro-organizational Behavior, Sustainable Firm Performance

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PREVISÃO DA ÉTICA DA GOVERNANÇA CORPORATIVA: O IMPACTO DO COMPORTAMENTO ORGANIZACIONAL NO DESEMPENHO SUSTENTÁVEL DA EMPRESA

*Forecasting corporate governance ethics:
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RESUMO

Este estudo examina o impacto dos mecanismos de governança corporativa no desempenho sustentável das empresas na China e no Paquistão, utilizando o estimador do Método Generalizado dos Momentos (GMM). O estudo utilizará dados de mais de 300 empresas listadas nas bolsas de valores do Paquistão e da China, cobrindo o período de 2011 a 2023, para refletir fenômenos reais. Os resultados revelam uma relação mais forte e estatisticamente mais robusta entre governança e desempenho na China do que no Paquistão. Os resultados ressaltam a importância do contexto institucional e cultural na formação da eficácia das práticas de governança corporativa. Na China, a dualidade do CEO e a separação da independência do conselho são fatores significativos de valor e eficiência da empresa, enquanto no Paquistão, os efeitos das variáveis de governança são mais fracos e menos consistentes. As recomendações valorizadas para o Paquistão para aprimorar a implementação dos códigos de governança e para que a China mantenha a confiança dos investidores continuam a garantir a eficácia da governança e incentivar a abertura corporativa e o cumprimento regulatório.

Palavra-chave: Governança Corporativa, Ética Pró-Comportamento Organizacional, Desempenho Sustentável da Empresa

INTRODUCTION

Sustainability is an essential role for the Corporate Sector; it involves recent concepts and practices that address many issues, such as corporate governance, Capital structuring, control, rights and relationships, day-to-day operations, planning and strategic development of firms, socio-economic resource efficiency, corporate and social responsibilities, accountability, and transparency. Precisely speaking, the Sustainability of the corporate sector is the management of corporate governance activities, focusing on day-to-day corporate practices and operations to meet corporate objectives. The purpose of this study is to investigate the role of corporate governance practice for sustainable corporate growth. Good corporate governance aims to achieve long-term growth. Empirical studies of oft-cited papers (Bebchuk, Cohen, & Ferrell, 2004; Bhagat & Bolton, 2008; Chidambaran, Palia, & Zheng, 2006). In the context of corporate governance impact on firm performance. Study Inquiry: How does corporate governance affect firm performance? What is the relationship between corporate governance and firm performance? Studies raise questions about the relationship between corporate governance structure and corporate performance. The study examined the relationship between corporate governance tools (board size, board independence, firm age, board education, and CEO status) and firm performance, using accounting-based measures of return on assets and return on equity. The study examines whether corporate governance tools enhance firm performance and explains the importance of corporate governance to it. This study explores corporate tools for relationship building. It estimates their impact on market-based (Tobin's Q) and accounting-based (Return on assets and Return on equity) measures of firm performance (Ali, Alim, Ahmed, & Nisar, 2022). The study examined the relationship between corporate administration and firm performance using S&P BSE-100 listed firms from 2011 to 2018, analyzing market-to-book value, Tobin's Q, board size, compensation, and board independence. The study indicates that the progressively proficient in witnessing execution (Ramaiah, Jan, Chebolu, Arumugam, & Subramani). An empirical study examines the impact of Shariah supervisory board tenure on the nexus between Shariah firm governance and performance across 140 financial firms in 16 nations over the period 2011 to 2015. They argued that Shariah governance supervisory board tenure was a positive, linear predictor of Islamic firm performance and highlighted the Shariah governance characterizations channels (Kok, Giorgioni, & Farquhar, 2022). The nexus between corporate governance and firm performance: a new structural approach adopted, with attention to improving firm corporate governance and financial performance (Pham & Islam, 2022). The researcher foremost intention to investigate the effect of corporate governance structure on firm performance by using Bombay stock exchange Indian firms data by using OLS and GMM models and found that high board size was positively impact on firm performance (Return on Assets & Tobin Q) and positive correlation between board meetings and firm performance (Tobin Q) and negative correlate with firm performance as Return on assets (Neralla, 2022). Empirical examination of Lebanon 150 firms about nexus between corporate governance and financial performance (SMEs), corporate governance (score) impact on firm performance (Return on Assets, Return on investment) and control variable of firm age, size, industry; indicate corporate governance were positively inter-dependency with firm performance, good corporate governance enhance the firm performance and company performance tend to improve their corporate governance (Nasrallah & El Khoury, 2022). Corporate governance performance changes depending on the measure of firm performance. Market base measure of Tobin Q and company specific factors of potential investor get confident CEO and member of board of directors that positive effect on corporate performance; firm were negative impact firm performance (Tobin Q) and account base firm performance measure (Return on assets) showed the positive impact by CEO and negative by leverage; believes to maintain performance levels (Neves, Vieira, & Serrasqueiro, 2022). The researchers examine the effect of good corporate governance on firm value (Fatoni & Fikri, 2022). Corporate Governance based on family-owned firms enhanced firm performance by improving strategic decision-making and planning (Tetteh et al., 2022). This study examines the impact of Corporate Governance on organizational growth in Indonesia's Islamic banking sector, using data from 24 Indonesian Islamic banks. The results conclude that corporate governance (sharia supervisory boards, board commissioners, meetings, incentives, quality, and compensation) was significant and positively impacted. The board's independence negatively affected Islamic

banking growth (firm performance) in Indonesia (Shariff, Ilmi, & Mohamad, 2022). Corporate Governance attribute during the crisis (Covid-19); firm performance of Malaysian firms by using firm characteristics, including governance structure, firm performance, leverage, liquidity, and dividend. Board size showed a positive effect, but did not affect the crisis. Board diversity during the crisis period has a significant positive impact on board meetings and a negative impact on audit committee meetings and firm performance (Khatib & Nour, 2021). A corporate governance researcher analyzed the effect of Scopus and Web of Science database analysis on firm performance in the Ghanaian context (Antwi, Carvalho, & Carmo, 2021). An executive-managerial (Corporate governance) entrenchment measure, combined with firm performance, indicates that CEO turnover led to poor performance and that manager gains in power had a positive impact on firm performance. An inverse correlation found between CEO entrenchment, firm performance and firm value (Antounian, Dah, & Harakeh, 2021). Corporate Governance (Board independence and CEO duality) influences financial performance (Return on Assets) using the top 1000 firms in the world. CEO duality negatively affected firm performance, whereas independent directors positively affected firm performance, as measured by Return on Assets (Wu, 2021). Corporate governance was restrained, earnings operation, and promoting firm performance were examined by 6260 firms of the Shanghai and Shenzhen stock exchanges of China (Y. Wang, Shan, He, & Zhao, 2022). Islamic corporate governance practices increase the firm's performance. The researcher contributed his study on sustainability practices to the Islamic corporate governance framework, and the firm enhanced its performance (Jan et al., 2021). Corporate governance characteristics (board structure, ownership structure, participation of board members, markets, business external control and product promotion competition) relationship with firm performs (Tobin Q and Return on Assets) by using Indian non-financial firms listed in Indian National stock exchange and conclude that Positive significant relationship between corporate governance and firm performance account base measure of return on assets and negative relationship found in market base measure of Tobin Q (Mishra, Jain, & Manogna, 2021). Corporate governance practices and firm performance analysis: India and Gulf countries. Listed 100 non-financial firms in each developing country, using 50 firms per country based on market capitalization. Account base (return on Assets) and market base (Tobin Q) firm performance measure and conclude that countries dummy Indian firm performance better with corporate governance as Gulf countries. corporate governance have negative impact on firm performance both measurement of account base (Return on Assets) and market base (Tobin Q) except governance effectiveness, transparency, disclosure, and leave was positive relationship with firm performance (Al-ahdal, Almaqtari, Tabash, Hashed, & Yahya, 2021). The researcher measures the nexus between corporate governance and firm performance using an accounting-based return-on-assets measure, and the research concludes that corporate governance has a negative, insignificant impact on the performance of Pakistan-listed firms on the stock exchange (Naz). A comprehensive review of the literature on corporate governance and firm performance, using the Scopus and Web of Science databases, indicated that there is growing interest in exploring corporate governance, driven by the development of corporate governance codes in the Malaysian context (Khatib, Abdullah, Elamer, & Hazaea, 2022). Corporate governance and firm performance (market-based measure of Tobin Q) as a moderating role of financial institutions by using the Pakistan stock exchange list of 287 non-financial firms, and applied GMM, and concluded that a higher institutional ownership level in firm ownership structure discourages large board size and encourages independent director governing body (Waheed & Malik, 2021). A company's and its employees' sustainability depend on its corporate social environment. Utilizing data from 266 Pakistani companies listed on the stock exchange between 2011 and 2020, the study calculated the effect using least squares regression, the GMM method, and a robust least squares test. The corporate social environment significantly improves sustainable firm performance (Jamil & Rasheed, 2023b). Firm performance (Tobin Q) measures the impact of corporate governance by using disclosure tone, CEO duality, board size, board independence, gender diversity and concluded that the Return on Assets, leverage, gender diversity and revenue growth were the most influential variables that impact corporate governance and firm value (El-Deeb, Halim, & Elbayoumi, 2021). The Nordic corporate governance model was used to examine the relationship between corporate governance and firm performance among Finnish publicly listed firms, and the study concluded that ownership in large firms was negatively related to firm performance, as

measured by Tobin's Q (Keinonen, 2021). There was In past Kuwait no corporate rules adopted, Kuwait government introduce new corporate rules, the researcher investigate the impact of corporate governance; board of director, board size, board independence, board diversity and family director impact on firm performance market base measure of Tobin Q and account base measure of return on assets by using 89 non-financial Kuwait stock exchange firms data from 2017 to 2019. Tobin's Q concluded that board size, board diversity, and board independence have a significant impact on firm performance, and, compared to return on assets, indicated that family directors have a significant impact on firm performance (Al-Saidi, 2021). There was good corporate governance for firm performance by using corporate governance proxies; good corporate governance size, board independence, board meeting and firm value (Tobin Q) and firm performance (return on assets) in Indonesian context concluded corporate governance was positive significant impact on firm performance (ROA) and return on assets positive significant impact on firm value (Tobin Q) (Safitri & Nani, 2021). The board of directors (CG) had a positive relationship with corporate investment and firm performance (Zahra, Benish, Umer, & Shahid, 2022). This study proposes to explore corporate tools for relationship building and to estimate their impact on market-based (Tobin's Q) and accounting-based (Return on assets and Return on equity) measures of firm performance. Corporate governance and firm performance: an analysis of 71 firms from the Pakistan Stock Exchange. Corporate governance measures, including board independence, CEO duality, and board size, were found to be associated with firm performance (Zeb, Shah, Rashid, & Raza, 2021). This study will examine "how corporate governance can help the firm to accelerate its performance." First, a scale of corporate governance practice for the firm will be developed, and then financial and accounting performance will be calculated using the governance score. The study will explore the impact of corporate governance on market- and accounting-based firm performance. Research Aim and significance of the study are (1) to investigate the corporate governance practices in stock exchange-listed firms and find out the best practices of corporate governance. (2) To analyze the performance of stock exchange-listed firms and measure the degree of performance influenced by corporate governance. (3) To analyze the impact of corporate governance on firm performance (market-based and accounting-based). (4) To analyze the corporate governance can help management to improve governance practices and firm performance. The research problem motivates corporate governance reform in Mauritius, which has been a priority agenda since the introduction of the Companies Act. The companies in Mauritius were recently troubled by the rising governance scandals (like the BAI scandal). The main reason for the collapse of companies was that assets did not back the liabilities; this was due to asymmetry in corporate governance practices among policyholders, caused by power sharing, ownership structuring, capital structuring, and profit sharing. In simple terms, the development of existing and upcoming companies depends on appropriate resource allocation and sound corporate governance practices. In brief, good corporate governance is the glue that holds responsible corporate business practices, which in turn guarantee positive corporate workplace management, community engagement, investor confidence, capital enhancement, marketplace responsibility, and sustained financial performance. It should be noted that good corporate governance practices are not standardized across the world due to differences in culture, legal structures, capital formation, and tax systems. A one-line statement is "Bungling corporate governance practices, board dependence, board of director's partial or dual control, and resource allocation led down the firm's performance." This study proposes to raise questions on the following problems and find solutions. (1) How does corporate governance impact firm performance? (2) Why does corporate governance influence firm performance? (3) When does corporate governance influence firm performance? (4) Which corporate factors enhance the relationship between corporate governance and firm performance?

This research is motivated by an empirical gap: shareholders are becoming reluctant to trust company directors and are demanding improvements in corporate governance disclosure standards. In most countries, the collective action problem in corporate governance with partial control is handed over to large shareholders. While governance independence performances, Stock exchange-listed companies that have corporate governance issues (risk) but still receive a positive market response and an increasing share price, there are different points of view and results from previous studies that also need to be considered in this study.

1 LITERATURE REVIEW

The literature on corporate governance in Pakistan and China is extremely thin, due to a lack of research in emerging areas and in international literature, as noted in the subsections. In Empirical literature several researchers have focus on the relationship between corporate governance and firm performance in term of corporate governance characteristic variables play important role significant influencing on firm performance and used for corporate governance measurement practices such as board size, board meeting, board independence, board activities, while comparison of Pakistan and China corporate practice to assist the relationship between corporate governance and firm performance and emphasis the business behave on requirement, act of society, corporate environment and stakeholder to perform their responsibilities to-word to increase the stakeholder and firm value (Berle & Means, 1932). The connection between individual board members and shareholders has patent and serious deficiencies in decision-making, which is followed up at the level of ownership. Where employees are not represented on the board, organizational disharmony arises, and a remedy is necessary (Samuelsson, 1957). Corporate governance mechanisms were a leading factor influenced by finance structuring and corporate decision-making (Stănculescu, 1958). Corporate control of firms through personal interlocks has diminished, and changes could also signal a shift towards a shareholder-oriented corporate governance regime (Heemskerck, Mokken, & Fennema, 1976). Corporate governance faces issues of institutional accountability, control, and misconduct, and is often masterminded by top management (Sommer, 1977). The corporate boardroom emphasized board attributes, directorate dimension, board structure, and company performance. They need a more precise measure of the effectiveness of board structure and company performance (Vance, 1978). Corporate governance focuses on how corporate decisions are made by management, particularly by corporate boards of directors (Lewin & Wiles, 1978). In the early evolution of corporations, ownership and control were tied together, and later, control was delegated to the board of directors. An investor is only interested in profit (Earle III, 1979). When confronted with actual and imagined corporate governance issues, many critics favour legislative and regulatory reforms to develop greater corporate control (Williamson, 1979). His earliest effort on corporate responsibility was from a seminal work (Carroll, 1979). Something is wrong with corporate governance (Ferrara, 1980). The board of directors, which has the power to hire and fire and to compensate management, resolves the conflict between the decision maker and the risk bearer (Baysinger & Butler, 1985). Corporate responsibility in a multidimensional construct: documents supporting policies and practices; why the business community should advance in corporate Governance Cause (Carroll & Shabana, 2010; Wartick & Cochran, 1985). Examine the multiple corporate governance issues and the degree to which executive monitoring and control impact on firm performance (Jenster, 1986). Researchers used Fortune magazine's rating to analyse the relationship between governance and financial performance; social factors were linked with risk of stock returns, and both stock market returns and accounting-based measures were closely related to performance (McGuire, Sundgren, & Schneeweis, 1988). Stockholders gain corporate board seats when earnings and stock price performance are poor (DeAngelo, 1988). ANCSA-focused research indicated that high-control contests and high turnover among directors and managers were associated with poor financial performance, and that firm results were consistent with firm theory (Karpoff & Rice, 1989). Corporate governance is one of the issues regarding the dual role of the chair and CEO and its impact on firm performance (Eyssell, 1989). Corporate governance structures with outside directors perform better and have a positive impact on firm share prices (Rechner & Dalton, 1989). Corporate governance structures with outside directors perform better and have a positive impact on firm share prices (Rosenstein & Wyatt, 1990). CEO turnover affects firm performance, and focuses on the relationship between CEOs and firm performance. The accountability factor significantly influences CEO power and turnover, which are in turn influenced by the internal governance structure and firm performance (Fizel & Louie, 1990). Who determines the corporate responsibility model in the business firm's reformulation of principles? Process of responsiveness, rules, regulations, policies, and firm relationships (Wood, 1991). The researcher provides an Alternative economic theory that influences both research and theory in society and the business field (Brenner & Cochran, 1991). Independent and Outside directors had a significant impact on firm

performance, whereas dual-control directors had a modest impact (Daily & Dalton, 1992). The organization classified relationship stakeholders as primary or secondary and developed a framework grounded in the reality of organizational behaviour analysis of corporate responsibility (Clarkson, 1995). In Japan, corporate governance mechanisms with top executive turnover and non-routine turnover were significantly related to return on assets adjustments (Kang & Shivdasani, 1995). Market unsympathetic and duality status was affected in long term performance (Baliga, Moyer, & Rao, 1996). Corporate governance practices, such as board meeting frequency and firm characteristics, are negatively related to a firm's market-based performance and decline in share price (Vafeas, 1999). The board governance characteristics and structure examined indicated a statistically significant negative relation with firm operating and stock return performance; firms with weaker agency problems produced worse performance, and corporate governance structures in which the CEO faced greater agency problems produced worse performance (Core, Holthausen, & Larcker, 1999). A CEO-led diversified firm with low stock ownership has low firm performance (Anderson, Bates, Bizjak, & Lemmon, 2000). Product market competition and corporate governance in product growth analysis concluded that when tied control is held by the ultimate owner, productivity growth increases (Januszewski, Köke, & Winter, 2002). There was a positive relationship between governance practices and market-based firm valuation. Stock returns show a negative correlation with corporate governance, with dividend yields used as proxies for the cost of capital (Drobetz, Schillhofer, & Zimmermann, 2003). Low firm control was associated with lower profits and greater internal capital market inefficiency in the firms (Joh, 2003). Most firms adopted multiple governance structures, and shareholders sought to increase the board of directors' power, while indicating that poor-performing board structures reduced firm performance, prompting governance changes (Nelson, 2005). A corporate governance study of Karachi Stock Exchange-listed firms explores the audit committees, board of directors', and their education, control, compensation, and progressive practices, and their relationship with firm performance. The researcher concluded that returns on assets and equity with poor control and governance issues produced lower profits than Tobin's Q, which showed lower cash payouts to shareholders (Shaheen & Nishat, 2005). Empirical research concluded that the independent director (non-executive) performed well and better for corporate governance (Lei, 2007). Corporate social activity affects the organization's long-term growth (firm performance). Employed the GMM model and the least squares regression approach to assess the factor effect and robustness for companies listed on the Pakistan Stock Exchange. Results are a significant, dependable, and long-lasting aspect that significantly improves the company's success (Jamil & Rasheed, 2023a; Jamil, Rasheed, & Mukhtar, 2022). How firm performance is affected by corporate governance in Korea: the audit committee did not affect firm performance; however, outside directors achieved better results in reducing agency problems and enhancing firm performance and profitability. Higher ownership control by a foreign investor is associated with higher firm performance (Kim & Yoon, 2007). The corporate governance and firm performance estimates indicated that control by large shareholders is expected to protect minority shareholders, because large shareholders, as board directors, can better arrange governance practices and investor protection (Tam & Tan, 2007). Empirical research indicates that an independent board has a significant positive impact on the firm's market value, whereas a CEO serving as board chair has a negative impact on firm performance. Audit committees and meetings frequently have a positive effect on Tobin's Q, a market-based measure of performance. Institutional shareholders send a positive signal to investors, which enhance firm performance. A large board size had a positive impact on shareholder wealth, with this effect enhanced by firm performance (Kyereboah-Coleman, 2007). Empirical evidence showed that foreign holding directors had a positive and more significant impact on sustainable firm performance (Imam & Malik, 2007). The relationship between corporate governance and market-based firm performance has been positively correlated across developing and developed markets (Rashid, 2008). The board concluded, after analyzing the Arab countries of Oman, Jordan, Egypt, and Tunisia, that concentration ownership was an endogenous response to investor-poor legal protection and that there was no significant effect on firm performance (Omran, Bolbol, & Fatheldin, 2008). The measured firm relationship was with non-financial stakeholders such as employees, customers, suppliers and communities (Choi & Wang, 2009). The corporate governance practice of CEO duality negatively impacts firm performance (Ehikioya, 2009). Corporate governance examined the relationship with

firm performance, concluding that the CEO's ownership had a positive and significant impact on firm performance, with this impact associated with board member ownership and board independence. Inferences about stock market performance and the relation between governance and performance depend on endogenous factors (Bebchuk, Cohen, & Ferrell, 2009; Bhagat & Bolton, 2008). Board independence had a negative impact on firm performance (Singh & Gaur, 2009). Set skills that can produce wide problems, complex social problems, organizational management issues, leadership positions and strategic innovation (Brown & Katz, 2011). There were four factors of Board independence, ownership structure, CEO duality and board size of corporate governance investigated and indicated that CEO negative and board size, ownership structure and board independence were positively correlated with the firm performance of return on assets (Fooladi & Nikzad Chaleshtori, 2011). The board structure's impact on firm performance in New Zealand was examined, and board director tenure, board size, and committees were found to have a positive, significant impact on firm performance (Fauzi & Locke, 2012). Small Board size was highly significant for firm performance, and two posts in a firm, the CEO and chairman, enhance the firm's performance (Azeez, 2015). Empirical research of return on equity and profitability did not impact and was not related to corporate governance indicators, and CEO duality was not related to firm performance (Arora & Sharma, 2016). Corporate governance was positively related to firm performance in the Malaysian firms' context (Bhatt & Bhatt, 2017). Corporate governance indicators, independent directors, board size (small), and no CEO duality were stronger for the firm performance (Kao, Hodgkinson, & Jaafar, 2018). A poor corporate governance structure reduces cash generation and cash disbursements, which, in turn, reduces firm performance (Aslam, Kalim, & Fizza, 2019). Thus, an emerging study on corporate governance and firm financial performance, using sample data from 214 firms in Asian emerging markets (Pakistan, India, Malaysia, and China), supports the view that corporate governance is significantly associated with firm performance (Zahra et al., 2022).

2 HYPOTHESES

- H1: Corporate Governance practices have positive effect on firm performance.
- H2: Board size has positive effect on firm performance.
- H3: Board independence has positive effect on firm performance.
- H4: CEO duality has positive impact on firm performance.

3 RESEARCH METHODOLOGY

A study examining the impact of corporate Governance performance on sustainable firm performance. This study proposes to develop a corporate governance measure using board size (board of directors), board Independence, and CEO duality to identify the degree of corporate governance practiced and to examine firm performance based on market (Tobin's Q) and accounting (return on assets and return on equity) measures. Data will be collected from reliable sources, related corporate firm annual reports, the stock exchange and publicly available information. This study will use data from more than 300 firms listed on the Pakistan and China stock exchanges, covering the period 2011 to 2023, to reflect real phenomena. The ordinary least squares regression model and GMM are used to examine the impact. After analysis, the robustness test is used to check the validity and sustainability of the results. Firm performance is measured using Tobin's Q, Return on Assets, and Return on Equity. This study aims to investigate the factors that influence business performance, as measured by Return on Assets (ROA) and Tobin's Q. The empirical model is estimated using the following equation and formulation.

Tobin's Q (Market Base firm Performance: The measurement of Tobin's Q (firm value market base) is calculated by a formula such as (Market value of equity + Book value of debt) / book value of total assets (Mishra et al., 2021; Rashid & Islam, 2013; Tiep Le & Nguyen, 2022).

$$Tobin\ Q_{i,t} = \frac{(MVE_{i,t} + BVD_{i,t})}{(BVT A_{i,t})}$$

Return on assets (Account-based Firm Performance: Net income divided by total assets calculates the return on assets (ROA), and we have measured it for the (F.P.) firm performance (Mishra et al., 2021; Oh, Chang, & Martynov, 2011).

$$ROA_{i,t} = \frac{net\ income_{i,t}}{total\ asset_{i,t}}$$

Corporate Governance Equation

$$Firm\ Performance(Tobin\ Q, ROA)_{i,t} = \alpha_0 + \beta_1 CGBSize_{i,t} + \beta_2 CGBIndependence_{i,t} + \beta_3 CEO\ Duality_{i,t} + \beta_4 firm\ age_{i,t} + \beta_5 firm\ size_{i,t} + \beta_6 lev_{i,t} + \varepsilon_{i,t} \dots 1$$

Where;

$Firm\ Performance(Tobin\ Q, ROA)_{i,t}$ Indicator of Tobin's Q for market base firm performance and return on assets for account base firm performance). $\beta_1 CGBSize_{i,t}$ is refer for an indicator of corporate governance. $\beta_2 CGBIndependence_{i,t}$ indicates an indicator Independent of corporate governance board, $CEO\ Duality_{i,t}$ indicate binary variable indicator of Board CEO Chair. $firm\ age_{i,t}$ for firm age, $firm\ size_{i,t}$ size of firm, $lev_{i,t}$ for Leverage Debt to Equality) and $\varepsilon_{i,t}$ error term.

To estimate the model's coefficients using panel data, GMM is very helpful because it addresses endogeneity, unobserved heterogeneity, and serial correlation in the error term. The model stated that a variety of corporate governance mechanisms, business characteristics, and leverage all affect a firm's success. Some of the independent variables may be correlated with the error term $\varepsilon_{i,t}$ which would result in skewed estimates if OLS estimation is utilized. These determinants may be endogenous. This is addressed by the GMM technique, which substitutes correlated but uncorrelated variables with endogenous variables that are correlated with instrumental variables (IVs).

The dynamic nature of the dependent variable may also be taken into consideration, since firm performance is likely to show persistence over time. As explanatory variables, the model might include lagged values of sustainable firm performance ($Firm\ Performance(Tobin\ Q, ROA)_{i,t}$). Using lagged instruments, GMM estimation would address the possible Endogeneity of lagged dependent variables in this scenario.

The following steps are part of the GMM estimate process: Moment Conditions: Assuming that the instruments have no correlation with the error term, moment conditions are derived for each equation. In order to estimate the coefficients, we must minimize an objective function that is formed by these requirements. The GMM estimation's moment conditions are as follows:

$$E[\dot{z}_{it} \varepsilon_{it} = 0]$$

Where \dot{z}_{it} instrument for vector and ε_{it} for error term. Further GMM estimation objective functions as

$$J(\theta) = \left[\frac{1}{T} \sum_{t=1}^T \dot{z}_{it} \varepsilon_{it} \right] W \left[\frac{1}{T} \sum_{t=1}^T \dot{z}_{it} \varepsilon_{it} \right]$$

W Weighting matrix adjusts for Serial Correlation and Heteroskedasticity. The steps listed below provide a summary of the estimation process: Step 1: Determine the initial GMM estimates using a consistent weighting matrix (such as the identity matrix), which isn't always the best option. The second step is to calculate the ideal weighting matrix, W, using the estimates from step one. To get more effective GMM estimates, the third step is to re-estimate the model using the ideal weighting matrix.

The following diagnostic procedures are to be carried out after the GMM model has been estimated: To determine whether the instruments are uncorrelated with the error term, the Hansen J-test (Over-identification Test) is used to assess their validity. The Arellano-Bond Test for Autocorrelation is used to make sure that there is no Endogeneity brought on by autocorrelation by looking for first and second-order serial correlation in the differenced residuals. Test of Sargan applied (if applicable) in order to verify the validity of the collection of instruments. The GMM estimates will be resilient to violations of the assumptions of error structure by adjusting standard errors for Heteroskedasticity and serial correlation. This study addresses potential Endogeneity, unobserved heterogeneity, and serial correlation in panel data by utilizing GMM to estimate the determinants of company performance in a consistent and effective manner. The approach guarantees that the correlation between corporate governance elements and company success is accurately recognized and evaluated.

Table 1 - Descriptive Statistics

	TQ	ROA	BINDP	BSIZE	CEO D	AGE	FSIZE	LEV
Panel A. Pakistan								
Mean	23.63	4.93	6.08	8.04	0.06	38.25	16.61	1.47
Median	1.16	3.89	6.00	7.00	0.00	35.00	15.73	1.12
Maximum	60302.28	500.53	20.00	21.00	1.00	105.00	27.87	135.89
Minimum	-4.51	-123.09	0.00	4.00	0.00	5.00	1.21	-551.49
Std. Dev.	1106.70	17.81	1.78	1.54	0.23	15.88	3.26	13.74
Panel B. China								
Mean	2.01	0.04	37.65	2.12	0.30	2.91	22.18	0.41
Median	1.58	0.04	36.36	2.20	0.00	2.94	21.98	0.40
Maximum	15.61	0.25	60.00	2.71	1.00	3.61	26.45	0.91
Minimum	0.80	-0.37	28.57	1.61	0.00	1.39	19.58	0.03
Std. Dev.	1.34	0.07	5.37	0.20	0.46	0.34	1.30	0.21

Table 1's descriptive statistics reveal notable cross-cultural variations between Chinese and Pakistani companies in several financial and governance related areas. Businesses in Pakistan exhibit a considerably more variable corporate environment, with dramatic maximum and minimum values for performance indicators such as Return on Assets (ROA) and Tobin's Q (TQ). In Pakistan, for example, the mean TQ is 23.63 with a very high standard deviation of 1106.70, whereas in China, the mean is much lower at 2.01 with a standard deviation of only 1.34. This suggests that Pakistan's market valuation is more volatile. Furthermore, there are notable differences in board size (BSIZE) and board independence (BINDP); Chinese companies have much smaller boards (mean BSIZE = 2.12) and much higher board independence (mean BINDP = 37.65%) than Pakistani companies (mean BSIZE = 8.04, BINDP = 6.08%), which may be a result of differences in corporate governance and regulatory frameworks. Due to differences in leadership structure, CEO duality (CEO D) is also more prevalent in Chinese companies (mean = 0.30) than in Pakistani ones (mean = 0.06). According to these descriptive statistics, there are significant cultural variations between Chinese and Pakistani businesses about firm characteristics, corporate governance, and financial performance. In

contrast to Chinese enterprises, which show more stable financial indicators, smaller and more independent boards, and a higher prevalence of CEO duality, Pakistani firms often show higher volatility and larger board structures with lower board independence. These discrepancies demonstrate how various organizational settlements, legal requirements, and cultural norms influence business conduct and governance in the two nations. For scholars and investors seeking to evaluate firm performance and governance procedures in a global context, it is essential to understand these distinctions.

Table 2 - Correlation Matrix

	TQ	ROA	B.INDP	B. SIZE	CEO D.	F.AGE	F. SIZE	LEVE
Panel A. Pakistan								
TOBIN Q	1.00							
RETURN ON ASSET (ROA)	0.16	1.00						
BOARD INDEPENDENT	-0.01	0.08	1.00					
BOARD SIZE	-0.01	0.09	0.83	1.00				
CEO DUALITY	0.00	-0.05	-0.13	-0.10	1.00			
FIRM AGE	-0.01	0.02	0.02	0.01	0.04	1.00		
FIRM SIZE	0.03	0.19	0.18	0.13	-0.07	0.09	1.00	
LEV	0.00	0.01	0.03	0.03	0.00	0.01	-0.02	1.00
Panel B. China								
TOBIN Q	1.00							
RETURN ON ASSET (ROA)	0.16	1.00						
BOARD INDEPENDENT	0.05	-0.02	1.00					
BOARD SIZE	-0.13	0.01	-0.55	1.00				
CEO DUALITY	0.07	0.03	0.11	-0.18	1.00			
FIRM AGE	-0.02	-0.10	-0.01	0.03	-0.10	1.00		
FIRM SIZE	-0.36	0.01	0.00	0.26	-0.18	0.18	1.00	
LEV	-0.25	-0.35	0.15	-0.01	-0.14	0.17	0.50	1.00

Table 2's correlation matrix compares corporate governance and business performance metrics in China and Pakistan, two distinct business and cultural contexts. A proxy for company value in Panel A (Pakistan), TOBIN Q, exhibits a weak positive connection with ROA (0.16) and little to no correlation with the majority of governance variables, such as CEO duality (0.00), board independence (-0.01), and board size (-0.01). The significant positive association (0.83) between board size and independence is a noteworthy discovery, indicating that larger boards in Pakistan typically contain a higher percentage of independent directors. Board independence (0.18) and return on assets (ROA) (0.19) exhibit a weak correlation with firm size, whereas leverage (LEV) shows little correlation with other factors.

In Panel B (China), ROA and TOBIN Q have a comparable positive association (0.16); other connections reveal considerable differences, reflecting structural and cultural differences. In China, for example, the relationship between board size and independence is negative (-0.55), indicating that larger boards can be less independent. The TOBIN Q has a negative correlation with both firm size (-0.36) and leverage (-0.25), suggesting that enterprises with higher levels of leverage and size have lower market valuations. Furthermore, the inverse relationship between ROA and LEV (-0.35) highlights potential issues with capital structure efficiency or risk. Overall, the evidence highlights cross-cultural variations that relate corporate governance practices to firm performance and characteristics. These

discrepancies may be caused by differences in each nation's business structures, legal frameworks, and managerial practices.

These correlation matrices reveal distinct differences between China and Pakistan in terms of company performance and corporate governance dynamics. Significant differences, such as the strong positive correlation between board size and independence in Pakistan versus a negative correlation in China, reflect underlying cultural, institutional, and regulatory differences, even though some relationships, like the positive correlation between TOBIN Q and ROA, are consistent across the two nations. Furthermore, compared to Pakistan, China exhibits stronger and more unfavorable correlations between company size and leverage, as well as performance metrics. These differences highlight the importance of tailoring corporate governance changes to specific institutional and national contexts, suggesting that governance structures and their impact on firm value are contingent upon context.

Table 3 - Unit Root Test		Panel A. Pakistan		Panel B. China	
Augmented Dickey-Fuller test statistic		At Level Statistic	t-	At Level Statistic	t-
TOBIN Q		-54.544***		-25.742***	
RETURN ON ASSET (ROA)		-17.458***		-64.199***	
BOARD INDEPENDENT		-16.960***		-58.966***	
BOARD SIZE		-15.780***		-54.242***	
CEO DUALITY		-18.822***		-60.538***	
FIRM AGE		-11.005***		-11.961***	
FIRM SIZE		-9.2475***		-13.985***	
LEV		-51.894***		19.203***	-

Table 3 presents the findings of the Augmented Dickey-Fuller (ADF) unit root test, which examines the Stationarity of variables in China and Pakistan. All of the variables, including TOBIN Q, ROA, board features, CEO duality, and firm-level controls, are statistically significant at the 1% level across Panel A (Pakistan) and Panel B (China) (shown by ***), indicating that the data series for each variable is stationary at level. Assuring the validity of regression and panel data analysis requires that the variables have no unit roots and do not require differencing to achieve Stationarity. Although all variables are stationary in both nations, there are notable differences in the magnitude of the t-statistics when seen from a cross-cultural. In Pakistan, for example, the TOBIN Q has a significantly higher negative t-statistic (-54.544) than in China (-25.742). In contrast, in China, ROA and board-related factors, such as CEO duality and board independence, show stronger Stationarity. The two countries' underlying economic conditions, corporate operations, or data behavior may differ, as evidenced by these variations in t-statistic results. The overall finding, however, confirms that the dataset is reliable and suitable for further econometric modeling in both cultural contexts. Overall, the results demonstrate that these variables are well-suited for use in additional panel data analysis, providing a solid foundation for investigating how corporate governance impacts business performance across diverse institutional and cultural contexts.

Table 4 - Diagnostic Breusch Pagan Godfrey Test

Heteroskedasticity Test	Panel A. Pakistan		Panel B. China	
Model Description	Model 1	(Tobin Q) Model 2 (ROA)	Model 3 (Tobin Q)	Model 4 (ROA)
F-statistic	0.6873	2.4506	122.0768	58.42911
R-squared	4.1283	14.665	718.2219	347.1463
Prob. F-statistic	0.6599	0.0229	0.0000	0.0000
Prob. Chi-Square	0.6593	0.0230	0.0000	0.0000
Serial Correlation LM Test				
F-statistic	0.0005	232.2821	11468.16	4631.790
R-squared	0.0010	402.7820	14101.21	7317.086
Prob. F-statistic	0.9995	0.0000	0.0000	0.0000
Prob. Chi-Square	0.9995	0.0000	0.0000	0.0000

Table 4 provides crucial cross-cultural insights into model dependability and data behavior by displaying the findings of diagnostic tests for serial correlation (LM test) and Heteroskedasticity (Breusch-Pagan-Godfrey test) in China (Panel B) and Pakistan (Panel A). According to the strong p-value (Prob. F-statistic = 0.6599), which suggests homoscedastic residuals, Heteroskedasticity is not a significant worry in Model 1 (Tobin Q) in Pakistan. Heteroskedasticity is statistically significant ($p = 0.0229$) in Model 2 (ROA); however, this suggests that the error variance is not constant, which could compromise the soundness of the regression findings. Model 2 exhibits substantial serial correlation ($p = 0.0000$), indicating a pattern in the residuals that deviates from the accepted OLS assumptions, whereas Model 1 again shows no problems ($p = 0.9995$). On the other hand, China's models (Models 3 and 4) have problems with serial correlation and Heteroskedasticity. Overall, extremely low p-values (0.0000) indicate significant autocorrelation and non-constant error variance in both the Tobin Q and ROA models. Thus, strong estimation methods (such as GMM) may be required for accurate inference, and care should be taken when interpreting regression findings.

Table 5 - Sustainable Firm Performance (GMM)

Variable	Panel A. Pakistan				Panel B. China			
	Market Base Model 1 (Tobin Q)		Account Base Model 2 (ROA)		Market Base Model 3 (Tobin Q)		Account Base Model 4 (ROA)	
	Coefficient	t-Statistic	Coefficient	t-Statistic	Coefficient	t-Statistic	Coefficient	t-Statistic
B. INDP	-5.2862	-0.8024	-0.3411	-1.0161	0.0113***	7.4033	-0.0002***	-3.3282
B. SIZE	-7.2907	-1.2320	1.01376*	1.8686	-0.0253	-0.5969	0.0021	1.0169
CEO D.	-18.895	-1.0547	-2.1823**	-2.3208	-0.0204	-1.3132	0.0020***	2.6268
F. AGE	-1.1024	-1.0320	0.0057	0.2184	0.2732***	14.234	-0.0124***	-13.1048
F. SIZE	11.979	1.0654	1.0241***	6.8674	-0.3268***	-37.259	0.0130***	40.7070
LEV	0.0661	0.6052	0.0118	0.6237	-0.5084***	-10.496	-0.1493***	-68.7150
C	-41.275	-1.0447	-18.276***	-3.5950	8.3067***	44.307	-0.1461***	-17.5597
R-squared	0.0015		0.0424		0.1286		0.1689	
Adjusted R-squared	-0.0004		0.0405		0.1284		0.1687	
J-statistic	4.4300		2.2400		2.6400		0.0000	
Durbin-Watson stat	2.0031		1.2883		0.7272		1.0556	

In Table 5, Pakistan (Panel A) and China (Panel B) are compared using both market-based (Tobin Q) and accounting-based (ROA) performance models, which display the findings of the Generalized Method of Moments (GMM) estimation for sustainable business performance. The results indicate that the impact of business characteristics and corporate governance on firm performance varies significantly across cultures.

The primary governance factors in Pakistan, including CEO duality (CEO D.), board independence (B.INDP), and board size (B.SIZE), have exhibited weak or statistically insignificant associations with Tobin Q (Model 1), suggesting that they have little bearing on market valuation. However, in the ROA model (Model 2), company size has a positive impact on performance (1.0241, $t = 6.8674$), and CEO duality has a substantial negative effect (-2.1823 , $t = -2.3208$), indicating that larger businesses with separate CEO and chairperson positions are more efficient.

On the other hand, the Chinese models (Models 3 and 4) exhibit stronger and more statistically significant correlations. Tobin Q is positively impacted by board independence (0.0113^* , $t = 7.4033$), suggesting that the market may favor governance changes that support independent boards. Market value and return on assets (ROA) are negatively impacted by both CEO dualism and leverage. At the same time, these two performance measures are strongly and negatively affected by firm size and age. Interestingly, business size has a favorable impact on accounting performance but a negative impact on market value, which could be a reflection of market suspicion about large, perhaps state-owned companies. The larger R-squared values and robust t-statistics suggest more explanatory power and a stronger governance-performance relationship in the Chinese setting. In conclusion, the GMM findings indicate that, compared to Pakistan, corporate governance has a more substantial and statistically significant impact on business performance in China. Investor sensitivity to board composition and leadership positions, variations in market maturity, investor sensitivity to board structure and leadership roles, and enforcement of governance standards. Because processes that work well in one institutional or cultural setting may not work as well in another, these findings underscore the need for context-specific governance improvements.

Table 6 - Sustainable Firm Performance (Robustness)

Variable	Panel A. Pakistan				Panel B. China			
	Market Base Model 1 (Tobin Q)		Account Base Model 2 (ROA)		Market Base Model 3 (Tobin Q)		Account Base Model 4 (ROA)	
	Coefficient	z-Statistic	Coefficient	z-Statistic	Coefficient	z-Statistic	Coefficient	z-Statistic
B. INDP	-0.01825*	-1.9376	-0.1575	-1.0139	0.0037***	5.4335	-0.0003***	-6.3747
B. SIZE	0.0615***	5.7060	0.6067***	3.4107	0.0237	1.2249	-0.0057***	-3.9428
CEO D.	-0.1040***	-2.5746	-2.3738***	-3.5601	0.0098	1.4411	0.0024***	4.8437
F. AGE	0.0032***	5.5853	-0.0081	-0.8557	0.0495***	5.3992	-0.0090***	-12.984
F. SIZE	-0.0534***	-18.535	0.6375***	13.407	-0.1887***	-66.136	0.0070***	33.304
LEV	-0.0005	-0.8105	-0.2110***	-19.208	-0.2509***	-14.554	-0.1087***	-84.705
C	1.5145***	21.681	-9.2321***	-8.0108	5.6026***	73.839	-0.0171***	-3.0241
Robust Statistics								
R-squared	0.7667		0.0565		0.1084		0.1121	
Rw-squared	0.1676		0.1247		0.2330		0.2288	
Akaike info criterion	5078.174		4058.382		52209.98		46716.92	
Deviance	1012.983		201872.1		15509.06		64.6122	
Rn-squared statistic	407.35***		621.97***		8182.0***		7923.9***	

In Table 6, the results of the robustness test for sustainable firm performance models in China and Pakistan are shown, which verify the consistency of previous GMM findings using different specifications. The link between corporate governance and firm success varies among cultures, as the data further highlights. Tobin Q (-0.01825 , $z =$

The robustness study concludes that China has more statistically significant and economically critical governance-performance correlations than Pakistan. Due to stricter regulations, more intense market monitoring, and improved data quality, governance arrangements have a more predictable and quantifiable impact on business results in China. The less consistent Pakistani models, on the other hand, suggest greater variation in the relationship between governance and company success. These results underscore the importance of considering institutional and cultural variations when evaluating the effectiveness of corporate governance across different nations.

The results from the Generalized Method of Moments (GMM) estimation of sustainable business performance in China and Pakistan supported conclusions from several empirical studies in the corporate governance literature. These studies support the view that cross-cultural variations in how governance structures (such as CEO duality, board size, board independence, and firm-specific characteristics) affect firm performance. The findings reveal that, as in Model 1 for Pakistan, governance factors such as board size and independence show negligible or weak correlations with Tobin's Q (Akmal, Salman, & Hussain, 2025; Zafar, Munir, & Khan, 2021). According to Pakistan's Model 2 results, CEO dualism negatively affects ROA, with the effect being notably negative at the 5% level (Din, Khan, Saleem, & Khan, 2024; Javed & Iqbal, 2007). Demonstrates that accounting-based performance (ROA) is frequently positively impacted by business size, corroborating the substantial and powerful influence of firm size in Pakistan's Model 2 (Ahmad, 2024; Zavalii, Lehenchuk, Chyzhevskaya, & Hrabchuk, 2025). Firm the beneficial effect of board independence on company value (as demonstrated in Model 3). According to the study, independent directors enhance the performance of Chinese companies and reduce earnings manipulation (Liu & Lu, 2007; Pan & Qian, 2025). Demonstrates that the market favors sound governance, particularly the separation of CEO and chairman responsibilities, as well as the existence of independent boards, which raises Tobin's Q values (Arsh et al., 2025; Chen, Firth, Gao, & Rui, 2006). Further, it demonstrates how improved legislative frameworks and investor awareness have enhanced the effectiveness of governance mechanisms in more established emerging economies, such as China. This aligns with the statistical significance and strength observed in China's models (Fan, Wei, & Xu, 2011; Scholtz, Jachi, & Nel, 2025; Zhao, 2016). Offers compelling evidence that firm size, age, and leverage have a substantial impact on accounting and market performance, which is consistent with the conclusions that these factors are both statistically and economically significant in China (Memon & Samo, 2019; H. Wang & Chen, 2024).

CONCLUSION

Corporate governance practices play a vital role in corporate structuring, capital structuring, social responsibility, shareholder and stakeholder rights and profits, employee motivation, and achieving economic and social goals and firm performance. The governance framework is very significant for boosting the firm's performance, protecting and motivating stockholders, because efficient resource use impacts overall performance, benefiting all parties and stakeholders.

This study aims to raise questions and try to find out "how corporate governance practices impact firm performance through market-based and accounting-based measures separately?" "Why does corporate governance influence firm performance?" "When does corporate governance influence firm performance?" and "Which corporate factors enhance the relationship between corporate governance and firm performance?" This study will contribute to the literature by first examining the roles of dependent and independent boards of directors in governance and which board type contributes more to firm performance. The study will use a variety of analytical factors (Tobin's Q, market-based; return on assets, account-based) to address the following topic. The study will examine and conclude on the impact of corporate governance practices on firm performance. The GMM findings are consistent with the broader corpus of cross-national governance studies. The results indicate that corporate governance practices and their impact on business success vary significantly across the two countries. Board independence and CEO duality are two governance characteristics that have a statistically significant and more substantial impact on both market-based (Tobin's Q) and accounting-based (ROA) performance in China. For instance, board independence significantly and

negatively affects return on assets (ROA) while positively affecting the Tobin Q, indicating that governance enhancements are highly responsive to market expectations. In China, there are robust, consistent, and statistically significant correlations between firm performance and governance systems, particularly those related to CEO separation and board independence. The consequences are less pronounced and more intermittent in Pakistan, which aligns with a less developed regulatory and governance framework. These results, supported by empirical research, confirm that corporate governance effectiveness varies across local institutions, legal frameworks, and market dynamics.

Suggestions for Pakistan to boost the implementation of governance codes, particularly those related to CEO duality and board independence. To make the market more receptive to governance frameworks, encourage investor education and transparency. Promote diversity and experience on the board to enhance accountability and decision-making. Recommendations for China to maintain investors' trust continue to reaffirm the board's independence and the division of leadership responsibilities. Monitor and manage the trade-offs between performance and company size, particularly in state-owned enterprises. To maintain the efficacy of governance, encourage corporate openness and regulatory compliance.

Directions for Future Research: Examine ownership forms to determine how they impact the linkages between governance and performance (e.g., family-owned versus state-owned enterprises). Evaluate how governance reforms change and impact business sustainability over time by conducting longitudinal research. Include environmental, social, and governance (ESG) considerations to encompass a broader range of corporate social responsibility in developing nations. Utilizes econometric models in conjunction with qualitative methods to comprehend how informal networks, leadership philosophies, and culture influence governance outcomes. Cross-cultural data support the idea that universal governance solutions are ineffective and that reforms should be customized to the institutional, legal, and market realities of each nation.

Declarations:

Ethical Approval: We declare that all ethical guidelines for authors have been followed by all authors.

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