Bulletin of Business and Economics, 12(4), 564-576
https://bbejournal.com
https://doi.org/10.61506/01.00171

Managerial Discretion and Corporate Governance Mechanism: A Case Study of Public Limited Firms of Pakistan

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Abstract
The purpose of this study is to examine the impact of board independence, CEO duality (managerial discretion) and corporate governance mechanism on firm performance measured through accounting-base measures i.e. return on assets as well as market-based measure i.e. Tobin's Q among Pakistan's KSE-listed non-financial firms from 2011 to 2021. The study used software (STATA 12) to analyze the data of 172 firms using the Generalized Method of Movements as well as Random Effect and Fixed Effect regression models to test how each corporate governance and managerial discretion variables contributes to the firm performance. Data was extracted from the annual reports, database, and websites of KSE-listed firms. The presence of board independence contributes positively to firm performance. The study highlights that although CEO duality has no impact on firm performance, but presence of board independence controls the managerial discretion provided by CEO duality and offer the necessary resources as well as monitoring the control the managerial discretion and improve firm performance**.** This article makes a significant theoretical contribution by synthesizing and extending key governance theories to offer a nuanced understanding of the intricate dynamics within corporate governance (CG), particularly in the specific context of KSE-registered non-financial firms in Pakistan. This research contributes actionable insights that span governance improvement, informed decision-making, regulatory considerations, and strategic performance enhancement, offering practical benefits for the diverse stakeholders in the corporate governance landscape.
Keywords: Corporate governance, Board Independence, Managerial Discretion, CEO duality, Firm Performance

1. Introduction
Judge & Talaulicar (2017) advocate the necessity of separating ownership from control for effective management in modern organizations. Shareholders delegate daily management responsibilities to a board of directors (BoDs) who, in turn, hire managers to execute business strategy, as highlighted by Sansing & Stocken (2007). BoDs are considered the backbone of corporate governance (CG), with a pivotal monitoring role according to agency theory by Jensen & Meckling (1976), ensuring the protection of stakeholders' interests and, most importantly, owners' interests. CG plays a crucial role in responsible and accountable management, enhancing overall performance (Dalwai et al., 2015). Effective governance, as noted by Hussain et al. (2018), contributes to sustainability goals and legitimacy. In the modern world, CG acts as the lifeblood, removing waste, providing antibodies against diseases, and supplying essential support to all organizational functions (KPMG, 2002).
Amid recent global corporate governance failures and accounting scandals, there's a growing interest in investigating the impact of corporate governance (CG) on business performance (e.g., Zhou et al., 2018; Brown & Caylor, 2006; Dittmar & Mahrt-Smith, 2007; Gompers et al., 2003). Policymakers and researchers emphasize the supervisory and resource provision role of boards of directors in CG, underlining the importance of independent, knowledgeable, and diverse boards in protecting investors' interests. The Sarbanes-Oxley Act (SOX) of 2002 reinforced this by mandating a majority of independent directors on boards, leading to increased scrutiny on board independence and diversity. Consequently, the current study focuses on exploring the role of board independence in enhancing overall performance.
Understanding the impact of CEO discretion on firm performance is crucial, given the pivotal role of board capital in enhancing performance (Haynes & Hillman, 2010). Despite the substantial influence of CEOs on business outcomes, especially within the context of Pakistan, CEO duality remains an underexplored determinant. CEO duality, where one person holds both CEO and chairperson roles, has garnered significant attention in recent years, with advocates invoking stewardship theory for superior performance, while critics argue for separation using agency theory for enhanced scrutiny. This study aims to empirically explore the role of CEOs, either as stewards or agents, in firm performance within the Pakistani context by drawing on theoretical perspectives from agency and stewardship theories.
In developed market economies facing increased corporate collapses, the pressing concern revolves around configuring organizations and adopting effective governance mechanisms to support top management decision-making and enhance organizational value (ICMAP, 2015; Coles et al., 2001; Su & Sauerwald, 2018; Sulehri et al., 2023). Agency theory emphasizes the monitoring role of Boards of Directors (BoDs) in evaluating managerial performance and internal controls, while resource dependence theory highlights BoDs as crucial resource providers (Jensen & Meckling, 1976; Carpenter & Westphal, 2001; Linck et al., 2008; Fama & Jensen, 1983; Zahra & Pearce, 1989; Wijethilake & Ekanayake, 2020). Corporate governance (CG) serves as a tool for company success, providing advice, compliance, and assurance. This study aims to bridge the gap by integrating agency and resource dependence theories, examining the manifestation of the CG and CEO duality linkage in large public firms. Additionally, it explores proposing governance mechanisms to control CEO duality's power (managerial discretion) and encourage optimal decision-making for organizational performance enhancement.
The research objectives of this study are multi-faceted, aiming to comprehensively explore the intricate dynamics of corporate governance (CG), managerial discretion (CEO duality), and their combined impact on overall firm performance.

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Firstly, the study seeks to analyze the nuanced contribution and interactions between CG and managerial discretion, specifically CEO duality, to discern their significance in shaping the broader performance landscape. Secondly, the research aims to shed light on the distinct contribution of an independent board to firm performance, recognizing its pivotal role within the CG framework. Additionally, the study endeavors to highlight the specific impact of managerial discretion, exemplified by CEO duality, on the overall performance of the organization. Finally, the research strives to uncover and propose suitable governance mechanisms that have the potential to enhance firm performance, offering valuable insights for effective organizational management. Through these objectives, the study aspires to contribute valuable knowledge to the field, offering practical implications for both theoretical understanding and real-world application in the context of Pakistani non-financial enterprises.

This study delves into the unique context of Pakistan's KSE-registered non-financial firms to explore the intricate relationships among board independence, CEO duality, and firm performance. By integrating these factors, the research aims to offer insights that extend beyond the local level, especially in an industry where improving company performance is paramount for customer satisfaction. The study recognizes the critical role of effective corporate governance mechanisms in navigating the social, economic, and regulatory landscapes. Understanding how board independence regulates CEO duality and impacts firm performance can uncover best practices in Pakistani organizations. With corporate governance, CEO duality, and firm performance being pivotal to organizational success, this research seeks to enhance comprehension of their interplay in a region marked by distinct socioeconomic dynamics. The study's conceptual framework not only lays the groundwork for future empirical research but also provides valuable insights for managers, decision-makers, and regulators in the realm of Pakistani non-financial enterprises.

2. Literature Review and Hypothesis Development

2.1. Outside Directors (Board Independence) and Firm Performance

Firms often choose to appoint more outside directors than required when shareholders exert significant influence over management, seeking enhanced control through external oversight (Adams et al., 2010). Numerous studies highlight the positive correlation between board strength and firm performance (Lim & Park, 2020; Khanna et al., 2014; Agrawal & Nasser, 2018; Uribe-Bohorquez et al., 2018; Kor & Sundaramurthy, 2009). Independent directors, as demonstrated by Uribe-Bohorquez et al. (2018) and supported by Garcia-Sánchez & Martínez-Ferrero (2017), offer increased objectivity and monitoring, thereby improving firm performance through more effective evaluation of management activities (Baysinger & Butler, 1985). Outsider directors, unlike inside directors, view board tasks distinctly from management duties, enhancing monitoring capabilities (Forbes & Milliken, 1999; Sako & Kubo, 2019). Moreover, resource dependence theory underscores the importance of outside directors in providing vital resources and strategic insights from their external networks (Tehseen & Sajilan, 2016). As environmental uncertainties grow, the necessity for outsider directors with strategic connections increases (Hillman et al., 2000). Tehseen & Sajilan (2016) advocate strategic board composition with outside directors possessing industry-related experience to offer crucial resources and strategic guidance. Additionally, outsider directors with relevant expertise contribute to strategy development and performance enhancement (Kroll et al., 2008). They play a pivotal role in accessing external resources and building inter-firm networks (Daily & Dalton, 1994; Johnson et al., 1996; Pearce & Zahra, 1992; Bendickson et al., 2015). Agency theory further emphasizes the importance of diverse experiences and knowledge within boards to effectively supervise and enhance performance (García-Meca & Palaci, 2018).

H1: Presence of outside directors (Board Independence) on the board has a positive effect on Firm Performance.

2.2. Managerial Discretion (CEO Duality) and Firm Performance

Several studies have delved into the empirical connection between managerial discretion and firm performance, producing varied and sometimes conflicting results. While some researchers, such as Zahra & Stanton (1988) and Demsetz & Lehn (1985), found no significant correlation, others, like Kesner (1987) and Donaldson & Davis (1991), demonstrated a positive relationship. These disparate outcomes stem from the divergent perspectives of stewardship and agency theories, which offer contrasting views on the role of managerial discretion in organizational success. CEO duality, a pivotal aspect of managerial discretion, has garnered considerable attention due to its potential impact on internal control mechanisms and company performance. According to agency theory, CEO duality, by consolidating power in the CEO, weakens board oversight and may lead to adverse effects on performance. Conversely, stewardship theory posits that CEO duality enhances decision-making efficiency and fosters strong leadership. While critics argue that CEO duality may impede board autonomy and decision-making, proponents believe it streamlines processes and improves responsiveness in dynamic business environments. Ultimately, the debate over CEO duality underscores the intricate interplay between governance structures, leadership dynamics, and firm performance, highlighting the need for further research to reconcile these conflicting perspectives and identify best practices in corporate governance.

H2: Managerial Discretion (CEO duality) has impact on firm performance (Stewardship vs Agency Perspective)

2.3. Governance Mechanism (Outside directors + CEO Duality) and Firm Performance

Hambrick et al. (2015) emphasize that the dynamics between senior management and Boards of Directors (BoDs) dictate the board's oversight responsibilities. While some theories underscore the BoDs' role as strategic decision-makers, the influence of outside directors on performance yields mixed results. Some studies argue for the positive impact of outside directors (Khanna et al., 2014; Peng, 2004; Agrawal & Nasser, 2019; Uribe-Bohorquez et al., 2018; Kor & Sundaramurthy, 2009), while others highlight negative or neutral effects (Reyna & Encalada, 2012; Schulze et al., 2001; Klein et al., 2005; Arosa et al., 2010; Cabrera-Suárez & Martín-Santana1, 2015). Discrepancies arise from methodological limitations that overlook the decision-making processes within boards, crucial for monitoring management activities and obtaining external resources (Macus, 2008; Daily et al., 2003). CEO duality, central to managerial discretion, presents challenges in information flow and governance. Studies suggest that its impact on performance depends on board composition (Kang & Zardkoohi, 2005; Conyon & Murphy, 2000; Coles & Hesterly, 2000). Duru et

al. (2016) note that while CEO duality may harm performance, it could be beneficial under effective board monitoring. Raheja (2005) recommends augmenting outsider directors to counterbalance CEO power, aligning with governance substitution theory (Wang et al., 2019). Agency theory and empirical evidence highlight the positive influence of independent board members on oversight (Fama & Jensen, 1983; Weisbach, 1988; Adams et al., 2010), reflecting regulatory emphasis on board independence post-Sarbanes-Oxley Act (SOX) of 2002. Increased independence improves business integrity and financial information quality, reducing costs associated with information (Armstrong et al., 2014; Duru et al., 2016; Faleye, 2007). Duality may hinder adaptability and succession planning, but outsider directors, as per resource dependence theory, offer assets crucial for advising and strategy implementation (Battilana & Lee, 2014; Huse & Rindova, 2001; Minichilli et al., 2009). Wijethilake & Ekanayake (2020) suggest that a high level of director involvement enhances CEO duality's positive impact on performance, echoing Finkelstein & D'Aveni's (1994) findings. Involving directors in strategic choices reduces agency inefficiencies and expenses, underscoring board significance in providing resources.
H3: The interaction of board independence (Agency and Resource dependence perspective) and CEO duality is positively associated with firm performance.

3. Theoretical Foundation

3.1. Agency Theory, Resource Dependency Theory, Stewardship Theory

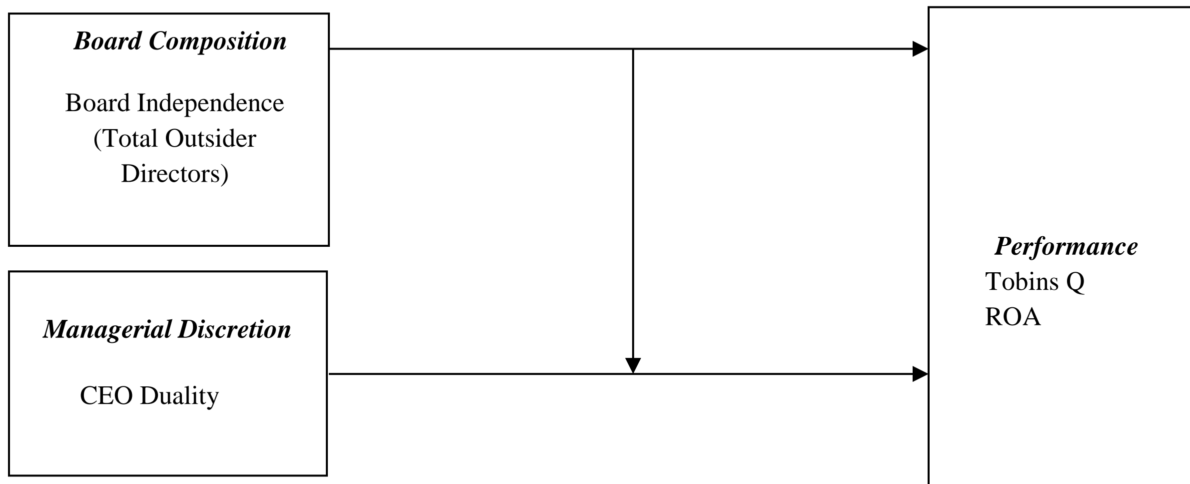
In the context of corporate governance, agency theory and resource dependence theory offer valuable insights into the dynamics between stakeholders and management. Agency theory, as elucidated by Fama & Jensen (1985), underscores the importance of governance structures in mitigating conflicts between shareholders and managers by addressing principal-agent relationships and minimizing agency costs. It focuses on aligning incentives to ensure managers act in shareholders' best interests, emphasizing the need for effective monitoring mechanisms to curb managerial opportunism.

In contrast, stewardship theory presents an alternative view, portraying managers as stewards rather than agents. Stewardship theory promotes trust in managerial decision-making, advocating for the integration of CEO and chairman roles to streamline decision-making processes and foster cohesive leadership. Stewards prioritize organizational goals and shareholder wealth maximization, highlighting the significance of insider directors who possess in-depth knowledge and are entrusted with safeguarding the firm's resources.

Resource dependence theory complements these perspectives by emphasizing the importance of acquiring diverse resources for organizational success. Building on Pfeffer's insights (1972), this theory emphasizes the role of boards of directors in facilitating resource acquisition through external networks and relationships. Independent directors play a pivotal role in accessing critical resources and enhancing the firm's resilience in dynamic environments.

Together, these theoretical frameworks offer a comprehensive understanding of corporate governance dynamics, addressing the challenges of aligning managerial actions with shareholder interests, optimizing resource utilization, and fostering effective decision-making processes within organizations. By integrating insights from agency theory, stewardship theory, and resource dependence theory, firms can develop robust governance structures that promote transparency, accountability, and long-term value creation for stakeholders.

Figure 1: Theoretical Framework



3.2. Research Design and Sample Selection

The study employs a quantitative research approach ideal for investigating objective facts and testing hypotheses within the corporate governance framework, aiming to connect theories with empirical findings. Given the complexity of corporate governance theories and their interconnections, a well-developed framework is utilized to explore multiple theories simultaneously, suggesting an analytical or descriptive study approach is suitable. Data collection relies on secondary sources, primarily annual reports, known for their reliability and compliance with regulatory standards, supplemented by a global database and company websites to ensure comprehensive information retrieval. Focusing on publicly traded firms listed on the Pakistan Stock Exchange between 2011 and

2021, the study encompasses 172 non-financial public limited companies, leveraging their publicly available annual reports mandated by regulatory authorities for thorough analysis.

3.3. Variables

The study evaluates corporate governance, managerial discretion, and organizational performance in selected firms, with a focus on various control variables. Corporate governance is assessed through board composition, specifically board independence, which involves the presence of non-executive outsiders on the board, correlating with favorable rankings in corporate governance indexes. Managerial discretion, exemplified by CEO duality, where the CEO also serves as chairperson, is examined to gauge its impact on firms, drawing from evidence indicating that greater CEO discretion leads to significant effects on firm outcomes. Organizational performance is measured using Return on Assets (ROA) for short-term performance and Tobin's Q for long-term performance prediction, considering factors such as company value and growth potential. Control variables include executive and firm-level factors, with CEO incentives, board composition, firm size, and slack resources being among the key considerations. CEO incentives, CEO compensation, and stock options are evaluated alongside board composition, gender representation, firm size, and slack resources to account for their potential impact on decision-making processes and organizational performance, ensuring a comprehensive analysis of the selected firms' dynamics and outcomes.

4. Data Analysis and Results

The study examines the effect of corporate governance (board independence) on firm performance and the impact of managerial discretion (CEO duality) in isolation and in coordination with board independence on firm performance. The hypotheses of the study are developed keeping in view existing theories and literature. Following are the econometric models used to test the hypotheses of the study:

Model 1 $FPit=\beta0+\beta1(TODit)+\varepsilon i$

Model 2 $FPit=\beta0+\beta1(CEODit)+\varepsilon i$

Model 3 $FP_{it}=\beta0+\beta1(BI_{it})+\beta2(CEOD_{it})+\beta3(BI_{it}*CEOD_{it})+\varepsilon i$

Model 1

Estimated Model 1 is based on first hypothesis of the study i.e. Presence of outside directors on the board has a positive effect on Firm Performance. The estimated Model 1 is as under:

$$FPit=\beta0+\beta1(TODit)+\varepsilon i$$

Model Fit Statistics: Following is an analysis of variance (ANOVA) table. This table highlights the regression model's results and includes information on the explained variance, residual variance, and model fit statistics:

Table 1

Source	SS	Df	MS
Model	1.0038	6	0.1673
Residual	11.2188	1519	0. 0073
Total	12.2227	1525	0.0080
F-Statistics		22.65	
P-Value		0.000	

Test for Heteroskedasticity*:* Study conducted Breusch-Pagan / Cook-Weisberg test to check for heteroskedasticity.

Table 2

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity			
Null Hypothesis (Ho): Constant variance			
Test	Statistics	Notation	p-value
Breusch-Pagan / Cook-Weisberg	0.51	chi-sq(1)	0.000

Test for Multicollinearity: The Variance Inflation Factor (VIF) is a measure used to assess multicollinearity in a multiple regression model.

Table 3

Variable	VIF
TOD	1.11
GD	1.08
Firmsize	1.09
SR	1.01
CEOD	1.00
CEOIN	1.07
Mean VIF	1.06

FGLS Technique for Data Analysis: To estimate the impact of the independent variable the study applied the FGLS technique of regression due to the existence of heteroskedasticity in collected panel data.

Table 4

ROA	Coefficient	Robust Standard Error	Z	p-value
TOD	0.0049	0.0013	3.65	0.000
GD	-0.0661	0.0167	-3.95	0.000
Firmsize	0.0078	0.0013	5.72	0.000
SR	0.0030	0.0014	2.10	0.036
CEOD	0.0030	0.0044	0.69	0.492
CEOIN	-0.0041	0.0009	-4.30	0.000

Table 4 highlights the results of a regression analysis of model 1 by applying the FGLS approach and estimate the dependent variable Return on Assets (ROA) based on the presence of total outside directors (TOD) as primary independent variables and others as control variables. TOD has a positive coefficient (0.0049923) and a very modest p-value (0.000), indicating that it has a statistically significant beneficial effect on ROA. The coefficient for GD is negative (-0.0661985), and the p-value is very tiny (0.000), showing that GD has a statistically significant negative influence on ROA. Firmsize has a positive coefficient (0.0078108) and a very modest p-value (0.000), showing that company size has a statistically significant positive influence on ROA.

Similarly, in the case of SR, the coefficient is positive (0.0030513), and the p-value is 0.036. This implies that SR has a statistically significant positive influence on ROA. CEOD has a positive coefficient (0.0030264), however the p-value is relatively high (0.492), indicating that CEOD is not statistically significant in predicting ROA. CEOIN has a negative coefficient (-0.0041352) and an extremely modest p-value (0.000), indicating that it has a statistically significant negative influence on ROA. To summarize the findings, TOD, GD, firmsize, SR, and CEOIN are statistically significant predictors of ROA, however CEOD is not statistically significant at the usual significance level of 0.05.

Table 5

Tobin's Q	Coefficient	Robust Standard Error	Z	p-value
TOD	0.442083	0.1365872	3.24	0.001
GD	-3.5415	1.674799	-2.11	0.034
Firmsize	-0.0580826	0.1362205	-0.43	0.670
SR	-0.0002336	0.1451258	-0.00	0.999
CEOD	0.0821823	0.439276	0.19	0.852
CEOIN	-0.1992348	0 .0959987	-2.08	0.038

Table 5 displays the regression results for the association between the dependent variable Tobin's Q and many independent variables, as well as the coefficients, robust standard errors, t-statistics (Z), and p-values of model 1. This model examines that presence of outside directors on the board (board independence) has a favorable influence on performance based on the third hypothesis. TOD has a considerable influence on Tobin's Q, according to the analysis (coefficient = 0.442 and P-value = 0.000). The participation of outsiders on the board increases the firm's value by 44.2 percent, as measured by Tobin's Q. The P-Value found in the study of model 3 for TOD is 0.01, indicating that Hypothesis 1 is correct. To summarize, TOD, GD, and CEOIN are highly significant determinants of Tobin's Q at the standard significance level (i.e. 0.05), but Firmsize, SR, and CEOD are not. Based on hypothesis 1, this model attempted to investigate the influence of the presence of outside directors (board independence) on firm performance (ROA and Tobin's Q). The study was effective in validating the assumptions of study and verifies the prior discussion of hypothesis 1. Tehseen & Sajilan (2016), Kroll et al. (2008) and Sánchez & Ferrero (2017) supported the current result of study that the presence of outside directors on the board (board independence) improves firm performance. The present study is consistent with other research that demonstrates a beneficial relationship between firm performance and outside directors as a governance strategy. (Khanna et al., 2014; Peng, 2004; Agrawal & Nasser, 2019; Uribe-Bohorquez et al., 2018; Kor & Sundaramurthy, 2009; Hillman et. al., 2000; Kroll et al., 2008). Carpenter & Westphal (2001) supported the current study's findings by highlighting the importance of outsiders in

strategic decision-making. Tehseen & Sajilan (2016), recognized that keeping in mind the beneficial link between outside directors in the form of human and social capital and the effects on performance, an entity can strategically structure its board by employing outside directors.

Model 2

Estimated Model 2 is based on second hypothesis of the study i.e. **Managerial Discretion (CEO Duality) has impact on firm performance (Stewardship vs Agency Perspective).** The estimated Model 2 is as under

$$FP_{it}=\beta 0+\beta 1(CEOD_{it})+\varepsilon i$$

Model Fit Statistics: ANOVA Table 2.1 summarizes the results of the regression model and provides information about the explained variance, residual variance, and model fit statistics.

Table 6

Source	SS	Df	MS
Model	1.0931	8	0.1366
Residual	11.1296	1,517	0.0073
Total	12.2227	1,525	0.0080
F-Statistics	18.62		
P-Value		0.000	

Test for Heteroskedasticity: Study conducted Breusch-Pagan / Cook-Weisberg test to check for heteroskedasticity.

Table 7

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity

Null Hypothesis (Ho): Constant variance

Test	**Statistics**	**Notation**	**p-value**
Breusch-Pagan / Cook-Weisberg	5.64	chi-sq(1)	0.0200

Test for Multicollinearity

Table 8

Variable	**VIF**
CEOD	1.01
TOD	1.74
BICOI	1.41
TID	1.19
Firmsize	1.11
GD	1.08
CEOIN	1.07
SR	1.01
Mean VIF	**1.20**

FGLS Technique for Data Analysis: To estimate the impact of independent variables, the study applied FGLS technique of regression due to the existence of heteroskedasticity in collected data.

Table 9

ROA	**Coefficient**	**Robust Standard Error**	**Z**	**p-value**
CEOD	0.0030	0.0044	0.493	0.493
SC	-0.0000	0.0003	-0.15	0.882
BICOI	0.0002	0.0001	2.03	0.043
TD	0.0052	0.0016	3.15	0.002
Firmsize	0.0074	0.0013	5.40	0.000
GD	-0.0647	0.0167	-3.87	0.000
CEOIN	-0.0040	0.0009	-4.18	0.000

SR	0 .0031	0.0014	2.14	0.033

Table 9 shows the regression analysis results for model 2 using the FGLS approach to predict the dependent variable ROA (Return on Assets) using CEO duality (CEOD) as the primary independent variable and others as controlled variables. CEOD has a coefficient of 0.0030208 and p-value is .0493 which is much higher than threshold i.e. 0.05. Because the p-value is so high in this case (0.493), it shows that CEOD does not have statistically significant influence on the dependent variable.
In short, based on the p-values, it is obvious that BICOI, TD, firmsize, GD, CEOIN, and SR are statistically significant predictors of the dependent variable (ROA), however CEOD and SC do not appear to have statistically significant impacts.

Table 10

Tobin's Q	Coefficient	Robust Standard Error	Z	p-value
CEOD	-0.0834571	0.4285812	-0.19	0.846
SC	0.309659	0.0326872	9.47	0.000
BICOI	0.0108321	0.0113264	0.96	0.339
TD	0.3796298	0.1619486	2.34	0.019
Firmsize	-0.0644562	0.1337112	-0.48	0.630
GD	-3.712803	1.628649	-2.28	0.023
CEOIN	-0.2047729	0.093489	-2.19	0.029
SR	-0.0056671	0.1414903	-0.04	0.968

Table 10 displays the regression findings for the association between the dependent variable Tobin's Q and several independent variables, with CEO duality (CEOD) serving as the primary independent variable and the others serving as control factors. Model 2 assesses whether CEO duality (CEOD) has an influence (positive or negative) on business performance (Tobin's Q) based on the proposed hypothesis. The coefficient for CEOD is -0.0834571, and the p-value is 0.846. The high p-value suggests that CEOD is not statistically significant in predicting Tobin's Q, implying that the existence of CEO duality has no statistically significant influence on Tobin's Q when other factors are controlled. In a nutshell based on the results, SC, TD, GD, and CEOIN are significant interpreters of Tobin's Q, but CEOD, BICOI, firmsize, and SR are significant interpreters in this model. This model examines the impact of CEO duality on firm performance (ROA and Tobin's Q) through the lens of agency and stewardship theories. The findings suggest no significant relationship between CEO duality and firm performance, aligning with several other studies (Finegold et al., 2007; Krause et al., 2014; Duru et al., 2016; Yang & Zhao, 2014). Other research by Van Essen et al. (2012), Dalton et al. (1998), Bergh et al. (2016), and Mutlu et al. (2018) also indicates a nonsignificant association, while Rhoades et al. (2001) show an undesirable link. Kang & Zardkoohi (2005) propose that the impact of the board's leadership structure on business performance depends on internal and external factors. Dahya (2009) argues that a unique leadership framework provides an independent check on the CEO's behavior, enhancing the monitoring function of the board and business performance. Notably, the relationship between CEO duality and various performance metrics differs; for instance, Brick & Chidambaran (2010) find an inverse association with ROA, while Cornett et al. (2007) and Tuggle et al. (2010) report varied results in large-cap corporations. Grove et al. (2011) reveal that the duality-performance link fluctuates over time, with an inverse connection in 2006 and 2007 but insignificance over a three-year period, emphasizing the dynamic nature of this relationship.

Model 3

Estimated Model 3 is based on third hypothesis of the study i.e. ***The interaction of board independence and CEO duality is positively associated with firm performance.*** The estimated Model 3 is as under

$$FP_{it}=\beta 0+\beta 1(BI_{it})+\beta 2(CEOD_{it})+\beta 3(BI_{it}*CEOD_{it})+\varepsilon i$$

Model Fit Statistics: ANOVA table summarizes the results of the regression model and provides information about the explained variance, residual variance, and model fit statistics.

Table 11

Source	SS	Df	MS
Model	0.941262263	6	0.156877044
Residual	11.2815051	1,519	0.007426929
Total	12.2227674	1525	0.008014929
F-Statistics		21.21	
P-Value		0.000	

The fit statistics for model 3 are shown in table 3.1. It has an F-statistic value of 21.21. The model's statistical significance is ascertained using the p-value linked to the F-statistic. The model 3 has p-value equivalent to 0.000. According to the F-statistic and related p-value, the model explains a sizable portion of the variance in the data and is statistically significant. Results highlight that the association between the dependent variable (performance) and independent variable (interaction of CEO duality and board independence) is well supported by statistical data.

Test for Heteroskedasticity: Study conducted Breusch-Pagan/Cook-Weisberg test to check for heteroskedasticity.

Table 12

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity			
Null Hypothesis (Ho): Constant variance			
Test	Statistics	Notation	p-value
Breusch-Pagan / Cook-Weisberg	0.41	chi-sq(1)	0.000

Table 12 shows the Breusch-Pagan/Cook-Weisberg test findings. Generally, the null hypothesis is not accepted if the p-value is lower than the selected significance threshold, which is usually 0.05. P-value of 0.000 for the model 3 suggest compelling evidence to the contrary of the null hypothesis. Regression model 3 thus shows indications of heteroskedasticity. Put another way, it suggests that the variance of the errors changes with the independent variable values.

Test for Multicollinearity: The Variance Inflation Factor (VIF) is a measure used to assess multicollinearity in a multiple regression model.

Table 13

Variable	VIF
BICEOD	9.35
CEODUA	9.27
Firmsize	1.09
GD	1.07
CEOIN	1.06
SR	1.01
Mean VIF	3.81

FGLS Technique for Data Analysis*:* To estimate the impact of independent variable the study applied FGLS technique of regression due to the existence of multicollinearity and heteroskedasticity in collected data.

Table 14

ROA	Coefficient	Robust Standard Error	Z	p-value
BICEOD	0.0040207	0.0018406	2.18	0.029
GD	-0.0721424	0.0167055	-4.32	0.000
Firmsize	0.0082311	0.0013656	. 6.03	0.000
SR	0.0029736	0.0014575	2.04	0.041
CEOD	-0.0249358	0.0134054	-1.86	0.063
CEOIN	-0.0044328	0.0009594	-4.62	0.000

The regression analysis of model 3 using the FGLS approach is presented in the table 14. Model 3 assesses whether the interaction between CEO duality and board independence (BICEOD) is positively correlated with company performance (ROA) based on proposed hypothesis. The coefficient of interaction between CEO duality and board independence (BICEOD) is 0.0040207. This means that, while all other factors remain constant, an increase of one unit in BICEOD corresponds to a 0.0040207 unit rise in ROA. It is possible that BICEOD is statistically significant in explaining the variance in ROA because the p-value (0.029) is smaller than the conventional significance level of 0.05.

The p-values for GD and CEOIN for model 3 are extremely low, suggesting a strong statistical significance with ROA but a negative relationship that is an increase of one unit in GD and CEOIN would result in a fall in the dependent variable (ROA). Although SR

has somewhat higher p-value (0.041) but it is statistically significant (p-value <0.05) as well and has a favorable effect on ROA. With a p-value that is marginally over 0.05, CEOD is not statistically significant in predicting ROA.

Table 15

Tobin's Q	Coefficient	Robust Standard Error	Z	p-value
BICEOD |	0.4732253	0.1834715	2.58	0.010
GD	-4.008939	1.665187	-2.41	0.016
Firmsize	-0.0370092	0.1361213	-0.27	0.786
SR	-0.0063136	0.1452835	-0.04	0.965
CEOD	-3.199837	1.336234	-2.39	0.017
CEOIN	-0.2181499	0 .0956297	-2.28	0.023

The table 15 displays the regression findings for the association between Tobin's Q and different independent variables for model 3. This model assesses that the combination of independent board and CEO duality is positively correlated (as a primary independent variable with other control variables) with firm performance (Tobin's Q). According to analysis, the coefficient of interaction between CEO duality and board independence (BICEOD) is 0.4732253, meaning that a one-unit rise in BICEOD corresponds to a 0.4732253 unit increase in Tobin's Q, holding other factors constant. Since BICEOD is statistically significant in explaining Tobin's Q and the p-value (0.010) is less than 0.05, Hypothesis 3 is likely to be correct. Moreover, BICEOD, GD, CEOD, and CEOIN are statistically significant in explaining Tobin's Q because p-values is less than 0.05. However, firmsize and SR don't seem to be statistically significant, since their p-values are larger than 0.05. This model explores the impact of outside directors in conjunction with CEO duality on performance metrics (ROA and Tobin's Q), confirming hypothesis 3. Considering the prevalent evidence of a no or negative relationship between CEO duality and firm performance in the literature (Van Essen et al., 2012; Krause et al., 2014; Duru et al., 2016; Yang & Zhao, 2014; Bergh et al., 2016; Mutlu et al., 2018), and studies by Rhoades et al. (2001) indicating a negative relationship, the study investigates the influence of outside directors (board independence) in the context of CEO duality. Drawing from Macus's (2008) argument that board interactions are foundational to board procedures as well as crucial for effectiveness and business performance, the study aligns with previous research (Duru et al., 2016; Adams et al., 2010; Cabrera-Suárez & Martn-Santana, 2015; Raheja, 2005) indicating that board independence enhances the positive aspects of CEO duality while mitigating its costs. The findings suggest that the CEO duality-governance model is more likely to be adopted by boards capable of effectively supervising their CEOs' actions (Wang et al., 2019).

5. Discussion

The academic interest in understanding how governance structures impact business value aligns with the recognition that management's primary goal is shareholder value maximization. Acknowledging that favorable outcomes from company initiatives don't guarantee higher valuation, this study employs discretionary logic to explore the conditions under which corporate governance and governing mechanisms are effective in large publicly traded firms. The integration of agency, stewardship, and resource dependence perspectives enriches the study, offering a more comprehensive business model and a deeper understanding of how corporate governance relates to resource provision and monitoring, influencing firm performance.

Examining the body of research on corporate governance, strategic management, and business performance, it becomes apparent that studies often lean towards one of three perspectives: agency, stewardship, or resource dependence. Despite discussions on the multifaceted roles of directors, many studies predominantly adopt the agency perspective. The current study breaks away from this trend, incorporating agency, stewardship, and resource dependence theories to develop a holistic understanding of the intricate relationships between corporate governance, managerial discretion, and firm performance. Addressing the study's third question, the results of the third hypothesis highlight a positive relationship between the presence of outside members on the board and firm value. Independent directors actively observe and evaluate the management team, fostering better performance. This aligns with agency theory, emphasizing that diverse experiences and knowledge among directors are essential for effective monitoring. Outside directors contribute to improved decision-making, risk management, and overall governance, attracting investments and enhancing stakeholder relationships.

Hypothesis 2 explores the effect of CEO duality on firm performance, revealing no significant impact. The study underscores that CEO duality's consequences depend on the effectiveness of external checks and balances. While it may not universally affect performance, concerns arise about potential power centralization and conflicts of interest. The third hypothesis sheds light on how firms choose their governance mechanisms, showing that the link between management structure and shareholder value depends on the board's monitoring and resource provision roles.

In essence, the study emphasizes the delicate balance required for CEO duality to positively impact business performance, especially in the presence of an effective independent board. The findings caution the organizations about the potential detrimental effects of

CEO duality when informal influence is high. Understanding the power dynamics between the board and CEO duality is crucial for Pakistani firms to navigate these challenges and foster economic success.

5.1. Theoretical Contributions

This article makes a significant theoretical contribution by synthesizing and extending key governance theories to offer a nuanced understanding of the intricate dynamics within corporate governance (CG), particularly in the specific context of KSE-registered non-financal firms in Pakistan. The integration of agency theory, stewardship theory, and resource dependence theory provides a comprehensive framework that captures the multifaceted nature of CG structures. The research explores the relationship between outside directors (board independence) and firm performance, reinforcing the positive impact of board strength while delving into the underlying mechanisms, such as independence and objectivity in evaluations. Additionally, the examination of CEO duality within the context of stewardship and agency theories adds depth to the understanding of managerial discretion, recognizing both challenges and opportunities associated with this phenomenon. The study further advances the literature by investigating the interaction between board independence and CEO duality, considering both agency and resource dependence perspectives. By situating itself in the unique context of Pakistani non-financial firms, the research contributes to the literature on corporate governance in emerging markets, acknowledging the region's distinctive socio-economic dynamics. Notably, the article provides actionable insights by proposing suitable governance mechanisms, bridging the gap between theoretical understanding and practical application for managers, decision-makers, and regulators in the realm of Pakistani non-financial enterprises. In essence, this research not only enriches theoretical understanding but also guides future empirical research and offers valuable insights for both academic and practical stakeholders in the field of corporate governance.

5.2. Practical Implications

The practical implications of this article are manifold and offer valuable guidance for various stakeholders in the realm of corporate governance, particularly within the context of KSE-registered non-financial firms in Pakistan. For managers and decision-makers, the research underscores the importance of enhancing governance practices by recruiting outside directors with independence and diverse skills, ultimately leading to more effective oversight and appraisal of management activities. The insights on CEO discretion and duality provide decision-makers with a nuanced understanding of the challenges and advantages associated with this managerial phenomenon, empowering them to make informed choices about the organizational leadership structure. Additionally, the study's recommendations for suitable governance mechanisms offer practical guidance for organizations to control CEO duality's power and encourage optimal decision-making, allowing for tailored approaches that align with specific organizational contexts. Regulators can leverage the research findings to refine regulatory frameworks, ensuring they strike a balance between effective oversight and flexibility for managerial decision-making. Moreover, the emphasis on the unique context of Pakistani non-financial firms provides localized insights for businesses to directly apply recommendations, fostering sustainable and culturally relevant governance practices. Overall, this research contributes actionable insights that span governance improvement, informed decision-making, regulatory considerations, and strategic performance enhancement, offering practical benefits for the diverse stakeholders in the corporate governance landscape.

6. Conclusion

The study significantly advances the understanding of corporate governance dynamics within KSE-registered non-financial firms in Pakistan by synthesizing and extending key governance theories. The integration of agency theory, stewardship theory, and resource dependence theory forms a comprehensive framework that captures the multifaceted nature of corporate governance structures. The research explores the intricate relationship between outside directors and firm performance, highlighting the positive impact of board strength and elucidating underlying mechanisms such as independence and objectivity in evaluations. Furthermore, the examination of CEO duality within the contexts of stewardship and agency theories contributes nuanced insights into managerial discretion, recognizing challenges and opportunities associated with this phenomenon. The investigation into the interaction between board independence and CEO duality, considering both agency and resource dependence perspectives, adds a novel dimension to the literature on corporate governance, particularly in the unique context of Pakistani non-financial firms. The theoretical contributions are substantial, offering a nuanced understanding of governance dynamics, while the practical implications provide actionable guidance for stakeholders, including managers, decision-makers, and regulators. The emphasis on the local socio-economic dynamics ensures cultural relevance and direct applicability of recommended governance practices. By bridging the gap between theory and practice, this research not only enriches theoretical understanding but also offers valuable insights for the improvement of governance structures and decision-making processes in the specific context of Pakistani non-financial enterprises.

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