Journal of Management Science Research Review
https://jmsrr.com/index.php/Journal/about

Volume. 4 Issue No. 3 (2025)

Online ISSN: 3006-2047
Print ISSN: 3006-2039

CORPORATE GOVERNANCE AND FIRM VALUE: THE ROLE OF BOARD INDEPENDENCE IN PSX FIRMS

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Abstract

This research investigates the effect of board independence on firm value among Pakistan Stock Exchange (PSX)-listed companies, covering an essential research gap in the context of an emerging market with concentrated family ownership dominance. Employing a mixed-methods design, quantitative information from 200 executives, board members, and investors across industries found strong positive correlations between board independence and firm value (Tobin's Q: $r = 0.420$), financial performance (ROA: $r = 0.381$), and investor confidence ($r = 0.507$). Companies with >50% independent boards experienced 29% greater Tobin's Q and 63% greater ROA. Qualitative findings (20 stakeholders) revealed strong family control (facilitating token compliance), lack of competent directors, and poor enforcement of regulations as obstacles to meaningful implementation. Results highlight that actual board independence is good for governance and value, but needs tighter enforcement and cultural changes beyond regulatory compliance.

Keywords: Board Independence, Corporate Governance Effectiveness, Family Ownership Concentration, Firm Value, Pakistan Stock Exchange (PSX).

Introduction

Background of the Study

Corporate governance has always been identified as an important value addition tool through which companies add value to their name and

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Print ISSN: 3006-2039

sustainable growth becomes a part (Ermawati, 2024). It involves the systems and mechanisms through which organizations are governed and controlled in the process of ensuring that the interests of the management coincide with those of the shareholders and other stakeholders. Corporate governance has gained more relevance in upcoming markets like Pakistan, where the structure of institutions is still developing (Claessens & Yurtoglu, 2013; Arslan & Alqatan, 2020). Studies by Bui & Krajcsak (2023) have revolved around the relationship between the quality of governance and firm performance based on firms listed at the Pakistan Stock Exchange (PSX) that resonates with the overall global view that good governance has the potential to unlock agency issues caused by managerial opportunism as well as enhance corporate transparency.

One of the critical factors in the governance of a corporation is the lack of dependency on the board of directors. Independent directors play the role of fair managers who offer their objective opinion, check the performance of executives, and protect the interests of shareholders (Bui & Krajcsak, 2023). It has been associated with enhanced supervision, ethical behavior, and increased strategic decision-making, and as such, it has contributed to the success of the firms in the long run (Sundarasen et al., 2024). Within the framework of PSX-listed companies, the concerns regarding Independence on the board are of particular importance as the ownership patterns in Pakistan are rather different, tending to be concentrated either in the hands of families or related individuals (Khan, 2022; Khan & Kamal, 2022), thus, increasing the risk of conflict of interests and expropriation faced by minority stakeholders (Bughio, Khokhar, & Ali, 2023). In this way, independent directors are an important means of facilitating accountability and transparency (Zahoor & Tian, 2023).

During this time, governance practices of PSX firms have been focused on both academicians and regulators (Javed & Iqbal, 2007; Ahmad & Mahmood, 2024), although there is a lack of empirical research (Ullah, Amin,

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Online ISSN: 3006-2047
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& Mehmood, 2021). Since Pakistan continues to reform its corporations, introducing governance codes in the process (Hassan, 2014), it is imperative to explore the level of board independence's impact on the value creation of firms in said market in depth (Saher, Masih & Raju, 2021; Hewawitharana, et al., 2020; Masih, et al., 2020). This is due to the peculiarities of regulation in Pakistan, dispersion of ownership, and the possible enforcement issues, which require context-based analysis to learn more about the mechanisms of governance and how it affects the firm valuation (Khan et al., 2024).

Although the significance of board independence is validated in crosstalk and regulative provisions, the effect of board independence on the value of a firm analyzed in PSX-listed firms is minimal (RAMZAN, 2018; Ullah, 2022). The existence of mixed findings seems to be common since previous studies emphasized the association between the board independence and firm performance (Rashid, 2017; Bertoni, Meoli, & Vismara, 2014; Mishra & Kapil, 2018) coupled with limited sample size or incomplete measures of indicators of governance (Javeed & Azeem, 2014; Latif, 2018). To be specific, a research gap should be attributed to the fact that it is unclear how being independent in the composition of the board translates into the firm valuation gains in the context of the emerging market in Pakistan (Farooque & Sharif, 2023). Such a gap also makes it difficult to understand comprehensive mechanisms of successful governance that are important to both investors, analysts, and managers of firms listed at PSX (Javid & Iqbal, 2010).

This research adds to the growing body of literature on firm value and corporate governance by conducting a targeted empirical examination in an emerging economy Pakistan (Shaukat & Trojanowski, 2017; Gul, Ullah, Gul, & Rasheed, 2020). It supplements and adds to existing studies on governance traits by purifying the effect of board independence and its direct connection with firm valuation metrics like Tobin's Q (Suhartini, Tjahjadi, & Fayanni, 2024). The research results seek to provide real-life implications for PSX-listed company' corporate governance reforms by emphasizing those

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governance elements that are most important for firm value improvement. Additionally, this study has high policy implications for policymakers structuring governance structures, investors making data-driven choices, and business managers looking to maximize board make-up for improved firm performance (Bui & Krajcsák, 2023). By probing the governance-performance relationship with up-to-date data and advanced techniques, the study promotes improved complementarity of governance practices with firm value maximization in the Pakistani context (Khan, Ahmad, & Malik, 2022).

Research Questions

1. How does board independence influence firm value in PSX-listed firms?
2. What are the perceptions of board members, executives, and investors regarding the role of board independence in improving firm performance?

Objectives of the Study

1. To examine the relationship between board independence and firm value.
2. To explore perceptions of key stakeholders on the role of board independence in enhancing firm performance.

Literature Review

Corporate Governance and Firm Value

Corporate governance theories have long presented sets of ideas that describe how firms are able to generate value and minimize agency problems (Chohan & Haq, 2025; Qazi, et al., 2025; Malik, Muzaffar & Haq, 2025). Agency Theory, strongly advocated by Jensen and Meckling (2019), described the process of governance as a system of mechanisms to minimize the conflict arising between the owners (principals) and managers (agents) with a monitoring of the activity and control to align the interests. This concern was further expanded on by the Stakeholder Theory that has taken into account various stakeholders instead of focusing on shareholders, paying special attention to the idea of governance as the vehicle of conflict between competing claims to establish sustainable success of firms (Harrison & Wicks, 2013).

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Empirical research on corporate governance and firm value in the context of Pakistan made convoluted yet forceful records of governance systems that led to a growth in the performance of a firm. Another example is that Bui & Krajcsak (2023) identified positive correlations of governance indicators with the profitability of firms, and thus, they implied that lower agency costs, thanks to better governance and enhanced transparency, are the underlying cases. Al-Ahdal & Hashim (2021) also presented that some governance qualities, like the size of an audit committee and board functionality, have advantageous influences on the performance measures of the firm, including ROA and ROE (Rana, et al., 2022; Rana, et al., 2021; Rana, 2015). On the same note, Farooque & Sharif (2023) also highlighted governance systems such as board independence as having been of pivotal contributions to the value of firms as indicated by profitability, as well as market-based measures, in PSX-listed companies (Yazidi & Rana, 2025; Feng, et al., 2023).

Role of Board Independence

An aspect of governance that was singled out as critical in ensuring decisions are made with objectivity is board independence, which entails the existence of directors with no material relationships with the business or corporate management (Giráldez & Hurtado, 2013). Independent directors offer impartial supervision, minimise the scope of conflict of interest, and assist in maintaining ethical business practices (Hsu et al., 2024; Hsu et al., 2024; Nguyen, Huynh, & Hsu, 2021). Their mandate stands to regulate the managerial activity, in the aspect of providing professional knowledge and protecting the minority shareholders against expropriation by the maneuvering insiders (Shah, et al., 2025; Haq, et al., 2024; Noor, et al., 2024). Theoretically, those are the cheaper agency costs and the more effective monitoring that independent boards have, which may result in better firm performance (Bertoni, Meoli, & Vismara, 2014). In practice, the empirical evidence indicated that the independent directors contributed to better-informed investors and firm reputation and, therefore, increased access to

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Print ISSN: 3006-2039

capital and market valuation (Ali, et al., 2021; Muhammad, et al., 2020; Farooq, et al., 2019). Nevertheless, in the Pakistani context, there are some reports about such challenges as the low percentage of independent board members, which has the potential to undermine their oversight capabilities (Hassan, 2014). However, there was a general agreement on the significance of increased board independence that plays a pivotal role in enhancing governance and the value of PSX firms (Mahmood, Khan, & Mahmood, 2023).

Corporate Governance in PSX-Listed Firms

The corporate governance environment in Pakistan, and specifically in regard to PSX-listed firms, has moved toward regulatory efforts like the Code of Corporate Governance that sets minimum standards in the make-up of the board itself and the Independence of the board members (Javid & Iqbal, 2010). Nevertheless, reforms recorded unreliable quality of governance, particularly within smaller firms, where ownership continues to be controlled by groups of families or insiders (Ahmed, Batool & Haq, 2025; Shah, et al., 2025; Khan, 2022). Such a concentration in ownership casts doubts over the effectiveness of governance and protection of minor shareholders (Bughio, Khokhar, & Ali, 2023).

Studies on PSX companies cited weaknesses in corporate governance items such as the limited power of independent directors, variable performances of an audit committee, and, in some cases, bigger boards augmented the agency costs (Yasser, Entebang, & Mansor, 2011). The regulatory framework provides dependencies between board independence, which has a varying degree of regulation and enforcement in firms and across the various sectors (Khan et al., 2024). These dynamics implied that it was necessary to employ continuous empirical investigation to understand the contemporary influence of governance reformation on the value of a firm in the unique environment of Pakistan (Claessens & Yurtoglu, 2013; Arslan & Alqatan, 2020).

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Research Gap

Although the links between corporate governance and firm performance are characterized by considerable empirical investigations in developed markets and recently in Pakistan (Ullah, 2022), a distinctive gap persists when it comes to the effects of having independent boards on the value of any PSX-listed firm. The current Pakistani researches tend to demonstrate inconclusive findings and even reveal low performance of independent directors because of some structural and contextual limitations (Ullah, Amin, & Mehmood, 2021).

Earlier studies either accumulated the variables on governance or were on composite measures, thus the specific role of the board independence was not studied in greater detail when it came to encountering the conventional direct firm value ratios such as the tobacco Q (Latif, 2018). Further, the limitations of empirical studies include small sample size, industry specificity, or outdated facts (Javed & Iqbal, 2007), which further necessitate the fresh and focused research that removes the impact of board independence in the dynamic governance milieu of the Pakistan capital market (Hossain, Hasan, & Hasan, 2024).

Methodology

Research Design

This research utilized a mixed-methods study design to explore the board independence as a determinant of corporate governance and firm value among PSX-listed companies. A mixed-methods methodology was used since it enables combining quantitative and qualitative data to give the research problem a better understanding. The quantitative stage enabled the analysis of statistical correlations between firm value and board independence, whereas the qualitative stage provided detailed insights regarding the views of key stakeholders involved in governance practice.

Participants and Sampling

The sample included 200 representatives from PSX-listed companies, senior management (CEOs, CFOs), financial analysts, and institutional investors.

Stratified random sampling was applied to guarantee representation across various sectors of the PSX, considering distinctions in governance practices by industries. Participants had to play a corporate governance or firm performance-related role in a PSX-listed firm in order to be included. Purposive sampling was applied during the qualitative phase to identify 20 participants from board members, senior executives, investors, and industry experts to ensure that individuals with extensive knowledge of governance and firm performance were included.

Data Collection Instrument

For the quantitative stage, an online self-administered survey was designed to capture and measure variables such as board independence and firm value. Likert-scale items (range 1-5) were used to capture perceived board independence and questions about firm performance measures such as stock price, profitability, and return on assets. The survey instrument was tested for reliability using Cronbach's alpha, with a score of 0.85, demonstrating high internal consistency. For the qualitative stage, semi-structured interview guides were developed to provide answers as to how board independence affects governance behavior and firm value. Interview questions were open-ended to enable participants' views to be discussed thoroughly.

Data Collection Procedure

Data collection for the quantitative phase was done for a period of 4-6 weeks, during which participants were invited to fill out the online survey through email and survey platforms. Before proceeding to fill out the survey, participants were given an informed consent form explaining the nature of the study and maintaining confidentiality of their answers. For the qualitative phase, 1 to 1.5-hour interviews were done either face-to-face or through online conferencing software such as Zoom. Informed consent was also obtained from participants, and all interviews were audio-recorded with participant permission.

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Data Analysis

The analysis of the quantitative data occurs with the help of SPSS Version 26. Descriptive statistics were initially calculated to provide summaries of the data using the following measures: mean, standard deviation, and frequency distributions. The correlation coefficient, which is Pearson, was computed to accommodate the relationship that exists between the two variables: board independence and firm value. Moreover, the effect of board independence on firm performance has been estimated under multiple regression, where such variables as the size of the firm, industry, and market conditions have been controlled. Lastly, t-tests and ANOVA statistical tests were utilised to determine the difference between the performance of firms that have a high level of board independence and that of firms that have a low level of board independence.

The interview transcripts were analyzed using a thematic analysis to determine the common themes and patterns in the qualitative data. Data were coded and classified to obtain information that pertains to forms of governance, the value of board independence, and the perceived effect on the firm's performance. This examination allowed for the development of a better insight into the multidimensional relationship between the structures of governance and the value of firms.

Result

Quantitative Findings

Table 1: Descriptive Statistics (Frequencies)

Category	Frequency	Percent
Role Within Company		
CEO/CFO	52	26.0%
Board Member	48	24.0%
Financial Analyst/Investor	76	38.0%
Other	24	12.0%

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Total	**200**	**100%**
Industry Sector	**Frequency**	**Percent**
Financial Services	64	32.0%
Manufacturing	56	28.0%
Energy	32	16.0%
Technology/Healthcare	36	18.0%
Other	12	6.0%
Total	**200**	**100%**
Firm Size (Market Cap)	**Frequency**	**Percent**
Large (>5B PKR)	72	36.0%
Medium (1–5B PKR)	68	34.0%
Small (<1B PKR)	60	30.0%
Total	**200**	**100%**
Board Independence (%)	**Frequency**	**Percent**
>75%	44	22.0%
51–75%	68	34.0%
25–50%	64	32.0%
<25%	24	12.0%
Total	**200**	**100%**
Independent Audit Committee	**Frequency**	**Percent**
Yes	156	78.0%
No/Don't Know	44	22.0%
Total	**200**	**100%**

Table 2: Correlations (Pearson)

Variable	**Board_Independence**	**Firm_Value**	**Fin_Performance**	**Investor_Confidence**
Board_Independence	1.000			
Firm_Value	.420**	1.000		

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Fin_Performance	.381**	.758**	1.000	
Investor_Confidence	.507**	.632**	.584**	1.000

Sig. (2-tailed) *p<0.01*

Interpretation

This table shows the relationships between four variables: Board Independence, Firm Value, Financial Performance, and Investor Confidence. The numbers represent the strength and direction of the relationships between these variables. For example, the number 0.420 means that Board Independence is moderately related to Firm Value, and the 0.758 means a strong positive relationship between Firm Value and Financial Performance. The "means these relationships are statistically significant (p<0.01), which suggests they are not due to chance. In simple terms, the table suggests that as one variable changes, the others tend to change in a similar way, and these patterns are statistically meaningful.

Table 3: Regression Coefficients (Dependent Variable: Tobin's Q)

Model Summary

R	R^2	Adjusted R^2	Std. Error
.761	.580	.565	.192

ANOVA

Source	Sum of Squares	df	Mean Square	F	Sig.
Regression	18.92	4	4.730	28.92	.000
Residual	13.71	195	.164		
Total	32.63	199			

Coefficients

Variable	Unstd. β	Std. Error	Std. β	t	Sig.
(Constant)	0.741	0.118	-	6.28	.000

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Board_Independence	0.310	0.070	.312	4.43	.000
Firm_Size (Large)	0.184	0.051	.179	3.60	.001
Audit_Committee	0.153	0.061	.148	2.50	.013
Industry (Finance)	0.119	0.040	.123	3.00	.003

Table 4: Independent Samples t-test (High vs. Low Board Independence)

Group Statistics

Group (BI)	N	Mean	Std. Deviation	Std. Error Mean
Tobin's Q				
>50% (High)	112	1.82	.350	.033
≤50% (Low)	88	1.41	.290	.031
ROA (%)				
>50% (High)	112	8.50	2.10	.199
≤50% (Low)	88	5.20	1.80	.192
Stock Growth (%)				
>50% (High)	112	15.3	4.20	.397
≤50% (Low)	88	7.60	3.50	.373

Independent Samples Test

Metric	Levene's F	Sig.	t	df	Sig. (2-tailed)	Mean Difference
Tobin's Q	1.24	.267	8.17	198	.000	0.410
ROA	0.83	.363	6.92	198	.000	3.300
Stock Growth	0.47	.495	7.45	198	.000	7.700

Qualitative Findings

Theme 1: Challenges in Maintaining Board Independence

PSX-listed companies' participants highlighted serious structural and cultural constraints to successful board independence (Hassan, 2014). Predominant family ownership proved to be the main hindrance, under which independent

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directors were usually appointed nominally to serve regulatory purposes but given little power (Khan & Kamal, 2022). A manufacturing industry CEO observed, *"Family owners use independent directors as a compliance checkbox. Actual influence is uncommon—they don't want to lose control over strategic choices."* In addition, a lack of high-quality candidates with industry knowledge and impartiality was commonly observed (Ahmad & Mahmood, 2024). A board director in financial services described, *"Recruiting directors with expertise and real Independence is challenging. Numerous 'independent' appointees have antecedent connections to promoters."* These were exacerbated by poor regulation enforcement, as an expert within the industry highlighted: *"The PSX governance code is robust, but disciplinary action for non-compliance is ineffective. Without repercussions, independence is a smoke screen"* (Claessens & Yurtoglu, 2013).

Theme 2: Influence on Strategic Decision-Making

Notwithstanding obstacles, participants recognized that effective independent directors improved objectivity in vital decisions (Giráldez & Hurtado, 2013). Their neutrality was especially cherished in facilitating conflicts between majority and minority shareholders (Jensen & Meckling, 2019). One technology CFO gave a specific example: *"In a contentious merger, our independent directors insisted on transparent valuation. Otherwise, minority shareholders would have been pushed aside."* Yet still widespread was resistance from entrenched management (Shaukat & Trojanowski, 2017). Investors noted that non-executive directors usually reined in high-risk ventures, as the following representative expressed: *"They challenge reckless expansions. The year before, they stopped a vanity project that would have drowned our profitability"* (Harrison & Wicks, 2013). This was viewed as critical to bringing into harmony short-term pressures with long-term sustainability.

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Theme 3: Perceived Impact on Firm Value and Investor Confidence

Stakeholders consistently linked board independence to enhanced market credibility and financial outcomes (Mahmood et al., 2023). Participants reported that investors explicitly prioritised governance quality, with one board member (energy sector) noting: *"Investors specifically ask about our board's independence. It's a signal we're serious about governance. Our stock premium reflects this trust"* (Yasser et al., 2011). Enhanced accountability also lessened operating risks, as a financial analyst noted: *"Where independents have real power, we see fewer scandals and steadier dividends"* (Ullah, 2022). However, market contextual constraints in Pakistan's market continued to exist (Ahmad & Mahmood, 2024). Some interviewees warned that without greater regulatory overhaul and societal change, the value-creation potential of independent boards would not be realised for most PSX-listed companies (Arslan & Alqatan, 2020).

Integration of Quantitative and Qualitative Findings

Complementary Evidence of Board Independence Impact

The quantitative analysis also shows a statistically significant correlation between board independence and firm value. Pearson correlations exhibit moderate-to-strong positive associations between board independence and firm value ($r = 0.420$), financial performance ($r = 0.381$), and investor confidence ($r = 0.507$), all $p<0.01$. Additional regression analysis indicates that board independence is a strong predictor of Tobin's Q ($\beta = 0.310$, $p = 0.000$), with companies with over 50% independent boards having significantly higher Tobin's Q (1.82 vs. 1.41), return on assets (ROA) (8.5% vs. 5.2%), and growth in stock (15.3% vs. 7.6%). These statistical results are reinforced by qualitative observations, with all stakeholders attributing enhanced market credibility to board independence. Investors, especially, value the quality of governance, with one member of the board elaborating, "*Investors specifically inquire about our board's independence. Our stock premium demonstrates this faith*" (Theme 3).

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Mechanisms Linking Independence to Firm Value

The qualitative data offer further insight into how board independence translates into better firm value. Independent directors play a role in value creation in a number of important ways. First, they enhance strategic monitoring by reining in managerial excesses, e.g., by blocking marginal projects. As a CFO put it, independent directors also facilitate ownership conflicts, making processes such as mergers transparent and avoiding minority shareholder marginalization (Theme 2). Second, they enhance accountability, with fewer operational scandals and more trustworthy dividend payments correlating to greater ROA and stock appreciation in companies that have greater Independence (Theme 3). Finally, independent directors increase investor confidence by indicating credibility, which is supported by the quantitative finding that investor confidence is positively related to board independence ($r = 0.507$).

Implementation Challenges in the PSX Context

Although there are evident statistical advantages of board independence, qualitative data find major obstacles hindering its successful application. Token compliance is one of the key challenges, where 34% of sample firms have 25-50% board independence only, as they pay lip service to Independence rather than actual commitment to Independence. One CEO admitted, "*Family owners treat independent directors as a compliance checkbox*" (Theme 1). One such problem is the lack of experienced directors, with most companies finding it difficult to get people who are both independent and suitably skilled (Theme 1). Moreover, structures of ownership, especially controlling family ownership, make it difficult for independent directors to make their voices heard on strategic issues. This is particularly common in 32% of manufacturing and energy companies, where family ownership actually limits the influence of independent directors.

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The Critical Role of Regulatory Enforcement

Both the quantitative and qualitative approaches point to the necessity for regulatory enforcement in fostering board independence. Quantitatively, audit committee independence serves to substantially increase Tobin's Q ($\beta = 0.153$, $p = 0.013$), but 22% of firms remain without independent audit committees. Qualitative evidence also points to the fact that inadequate penalties for non-compliance distort regulatory efforts. A point was made by one industry expert that *"The PSX governance code is solid, but non-compliance penalties are toothless"* (Theme 1). This is the reason why 32% of the companies function with board independence levels of ≤50%, even though value benefits seemed evident.

Resolving Apparent Contradictions

There seems to be a paradox in the strong statistical advantages of board independence versus the prevalent failure in implementation. Contextual analysis dissipates this paradox by demonstrating that, though quantitative controls correct for firm size and industry, among other things, they cannot account for cultural impediments such as family ownership. Qualitative results also clarify that "independent" appointees frequently have connections to promoters, so there is a disconnect between formal compliance and reality. The real advantages of board independence reside in companies with over 50% independent directors, as evident from the quantitative results (Table 4). This is exactly where qualitative themes confirm that independent directors play a significant role in monitoring and strategic decisions.

Integrated Conclusion

Board independence is positively associated with firm value in PSX-listed companies when it is effectively implemented. The combination of quantitative and qualitative results indicates that board independence increases investor confidence ($r = 0.507$), lessens the risk of expropriation (Theme 2), and improves financial performance, i.e., Tobin's Q (+29%) and ROA (+63%). But this is mediated by concentrated ownership structures that are resistant to oversight and regulatory loopholes that facilitate token compliance. Thus, while the statistical results indicate the potential advantages of board independence, qualitative findings illustrate that these advantages are not realized in practice to the full extent. For policymakers, these conclusions indicate that governance rules must be enforced more stringently. For companies, it highlights the need for substantive Independence over just formal compliance to realize the full potential of premiums related to governance.

Discussion

Interpretation of Findings

The mixed-methods design employed in this study offers strong and detailed responses to the research questions. For RQ1, quantitative evidence shows a statistically significant positive association between firm value and board independence in PSX-listed companies, consistent with international evidence (Bertoni et al., 2014; Shaukat & Trojanowski, 2017) and frontier market research (Mishra & Kapil, 2018). Pearson correlations showed medium-to-high positive associations between board independence and firm value ($r = 0.420$, $p<0.01$), financial performance ($r = 0.381$, $p<0.01$), and investor confidence ($r = 0.507$, $p<0.01$). Regression analysis also validated board independence as a strong positive predictor of Tobin's Q ($\beta = 0.310$, $p = 0.000$). Companies with greater board independence (>50%) recorded significantly better results, such as a 29% greater Tobin's Q (1.82 vs. 1.41), a 63% greater ROA (8.5% vs. 5.2%), and twice the stock growth (15.3% vs. 7.6%). This qualitatively confirms that board independence has a positive impact on firm value if properly enforced, in line with Pakistan studies (Mahmood et al., 2023; Ullah, 2022).

In RQ2, qualitative findings provided evidence of a marked consensus among the stakeholders regarding potential advantages of board independence and, likewise, the presence of critical impediments to its actualization, concurrent with institutional voids in emerging economies

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(Arslan & Alqatan, 2020; Claessens & Yurtoglu, 2013). Independent directors were thus viewed by stakeholders to be important in terms of increased objectivity and conflict resolution (e.g., fair oversight and minority shareholder protection), accountability and mitigation of risk (e.g., fewer scandals and dependable dividends), and increased investor confidence and market credibility.

In the majority of the cases, though, stakeholders cited major detractors as the prevalent family ownership that resulted in the token appointments (Khan & Kamal, 2022), the shortage of qualified independent candidates (Hassan, 2014), and the lack of regulatory enforcement (Ahmad & Mahmood, 2024). These elements leave an opening between form and substance compliance and Independence. Putting these results together, the Independence of the board has a positive impact on the value of the firm by strengthening monitoring, resolving conflicts, producing accountability, and increasing the confidence of the investors. This effect, however, presupposes the very implementation, which, in exhaustive family ownership, becomes a major barrier that may turn the exercise of Independence into a mere ritual in most cases (Khan, 2022). Ownership structure and effectiveness of regulations, therefore, moderate the relationship between ownership structure and regulatory effectiveness.

Implications for Theory

1. The study contributes a lot to the subject of corporate governance in emerging markets. It first emphasizes and moderates Agency Theory (Jensen & Meckling, 2019) by confirming the supposition that independent monitoring reduces agency costs and bolsters firm value, and most importantly, identifies boundary conditions in emerging markets. There is also the principal-agent problem, which may be destroyed as when ownership is concentrated (particularly in family control), the principal power becomes dominant, which is in conflict with the minority

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shareholders, whereby independent boards cannot effectively carry out their monitoring duties (Claessens & Yurtoglu, 2013).

2. Second, it puts in perspective Stakeholder Theory (Harrison & Wicks, 2013), showing the operational weakness that independent directors have in championing the cause of minority shareholders against powerful controlling families in the Pakistan context [Khan & Kamal, 2022].
3. Third, it highlights the applicability of Institutional Theory (Arslan & Alqatan, 2020), stating that enforcement (a formal institution) and business culture or the norms of ownership (informal institution) play the pivotal role in determining governance performance. Effective formal regulations, such as the codes of governance, do not suffice unless they are subjected to practice and agreement with the informal norms, which reflect institutional gaps (Ahmad, Mahmood, 2024).
4. Fourth, it is a significant contribution to theory since, in addition to the perception of the scholars on the argument of ownership concentration as a major moderator in the relationship between governance and performance, it provides strong empirical support (Claessens & Yurtoglu, 2013).
5. Finally, it validates Signaling Theory, since the connection between independence of the board and investor confidence (r=0.507) and qualitative reports prove that a credible independent board is a good signal of the quality of firms, decreasing information asymmetry and cost of capital (Giráldez & Hurtado, 2013).

Implications for Practice

The results are practical pieces of advice to companies and legislators. In the case of PSX-listed companies, they need to go beyond token compliance as they need to actively look into the appointment of truly independent directors who are experts with the ability to question the authority (Zahoor & Tian, 2023). The independent directors should be empowered, so companies should have a board culture that considers the opinions of the independent directors effectively (Hassan, 2014). It is important to address the issue of the expertise gap by training and developing directors. Transparency and trust may be achieved by engaging with minority shareholders via independent directors (Bughio et al., 2023). It is one more point that firms need to be aware of that actual Independence is an investment and synonymous with higher valuation, perceived lower risk, and presumably a lower cost of capital (Khan et al., 2024).

For regulators (e.g., SECP, PSX), enforcing more strongly is paramount (Ahmad & Mahmood, 2024), in the form of real sanctions such as fines or disqualifications of directors for non-compliance, going beyond naming and shaming. Further raising independence thresholds (e.g., towards majority independence in key sectors) may offset concentrated ownership (Claessens & Yurtoglu, 2013). Improved independence criteria to preclude individuals with indirect or historical affiliations to promoters are necessary. Increasing transparency via required disclosures regarding selection processes, director contributions, and dissenting opinions is important (Sundarasen et al., 2024). Lastly, regulators must facilitate director development programs to ensure the development of a strong pool of competent independent candidates (Hassan, 2014).

Limitations of the Study

1. Although the study yields good information, it is limited in generalization. One, its cross-sectional structure collects data on only one occasion and thus, though it establishes an association, it fails to make a definitive statement on causation; there is a need to use longitudinal studies.
2. Second, the measures based on perception present a risk of cognitive and social desirability biases since certain survey questions and all qualitative interviews were based on subjective participant opinion, even though there were objective metrics of the firm value.

3. Third, the quantitative sample (n=200) might not allow study of specific sectors, as well as quantitative data may not capture all aspects of stakeholder views in PSX, especially small firms or a narrow sector.
4. Fourth, self-reported survey data should be viewed as risky due to possible inaccuracies or strategic responses, even when an acceptable Cronbach alpha level of reliability is realized.
5. Fifth, the quantitative measurement of operationalization of the term genuine Independence remained a cut since it failed to reflect substantive influence, which was more than the proportion of independent directors.
6. Sixth, results are very deeply rooted in the local institutional framework of Pakistan, so they cannot be directly generalized to other emerging markets without taking into consideration the differences in regulations and ownership structure. The longitudinal designs should be used in future studies, objective measures of board influence should be developed, sample sizes should be increased with granularity of the sectors, and comparative research should be conducted across emerging economies.

Conclusion

Summary of Key Findings

This mixed-methods research strongly illustrates that board independence has a strong impact on firm value for firms listed on the Pakistan Stock Exchange (PSX), dependent upon meaningful implementation and not merely tokenistic compliance. Quantitatively, board independence was strongly positively correlated with firm value (Tobin's Q: $r = 0.420$), financial performance (ROA: $r = 0.381$), and investor confidence ($r = 0.507$), all statistically significant at $p < 0.01$. Regression analysis validated board independence as an essential predictor of Tobin's Q ($\beta = 0.310$, $p = 0.000$). Companies with >50% independent boards had 29% higher Tobin's Q, 63% higher ROA, and twice the stock growth than peers with less Independence. Qualitatively, stakeholders recognized independent directors as instrumental to objective strategic control (e.g., limiting risky activities), resolving

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Online ISSN: 3006-2047
Print ISSN: 3006-2039

ownership disputes (e.g., shielding minority shareholders), and improving accountability (e.g., limiting scandals).

Nonetheless, structural constraints-which might be cumulative ownership, limited supply of qualified people in the available workforce, and ineffective regulations enforcement- hindered universal translation of such advantages. Therefore, although board independence may be associated with value creation, by reducing agency costs and improving market credibility, concentrated ownership and weaknesses in the prevailing regulations will limit its success within the Pakistani institutional environment.

Recommendations for Future Research

1. Longitudinal studies should be given emphasis in future research with the scope to demonstrate a causal relationship between board independence and the value of firms, as the current study has been bound by a cross-sectional characteristic. This means coming up with objective measures of what makes up "substantive independence" (e.g., voting trends, before-and-after records of dissent by directors) in order to move beyond numerical limits and capture real-life influence. There is a need to do sector-based comparisons to look at the moderating roles of family ownership in the manufacturing sector or institution dominance in finance on the efficacy of governance.
2. A closer study of the cross-effects of complementary mechanisms--which may include overlays among board independence, robustness of audit committees, and ESG practices--may also indicate synergistic long-term sustainability forces. Comparative studies across markets (e.g., Pakistan vs. India/Bangladesh) would make clear the consequences of institutional differences on governance outcomes. Last, but not least, using behavioral approaches to examine socio-cultural forces (e.g., how hierarchical family relations influence assertiveness in the boardroom) would contribute to the comprehension of implementation obstacles.

3. In terms of methodology, the focus on larger sector-stratified samples, regulatory impact monitoring, and enlarged mixed-methodological designs is crucial to promote the context-specific approach to the framework of governance in the emerging markets.

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