The Moderating Impact of Political Intervention on the Relationship between Corporate Governance and Firm Performance

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ABSTRACT

This research scrutinized the moderating effect of Political Intervention (Government Ownership and Government Appointed Directors) on the association between corporate administration (DUA, the BS, and OC) and the firm performance (ROA) in Pakistan. This study addresses significant corporate administration aspects for Pakistan's listed companies and ties together the theoretical and empirical findings of the firm value implications of political intervention. For this study, the data has been taken from the 3 significant divisions of Pakistan, which are the Fertilizer Industry, Sugar Industry, and Oil and Marketing Sector, from 2010 to 2020. This research has significance as this topic resides in Pakistan. Yet, besides, this examination will be providing discernment to the financial specialists that how political interference in a firm's decision-making is detrimental or beneficial to firm performance. Politicians might control firms in a way they can benefit themselves; they even might pursue their personal goals. The study results are consistent as we noticed that corporate governance indicators have a negative and insignificant impact on Firm Performance. Moreover, one of the variables of Political intervention, GOV_OWN, has a negative impact on firm performance along with the board size (CG variable). Whereas the other variable of Political Intervention, GOV_APP, positively impacts firm performance along with the board size (CG variable).

Keywords: Corporate Governance, Firm Value, Political Intervention, Pakistan.

INTRODUCTION

Corporate governance is a wide phenomenon being used and viewed as a corporate administration that prompts corporate sustainability and solidness. Where the corporate administration is identified with the administration of corporate organizations that help manage the corporate operations. The corporate administration provides the framework through which a firm is being overseen, coordinated, and controlled; it incorporates rules and

guidelines, laws, and various arrangements alongside the affiliations influencing the administration of a firm. Corporates with good administration take care of the firm's considerable number of connections with its inside just as outside partners (stakeholders), and organizations to accomplish their targets. The stakeholders are an extensive term utilized for everybody that is being influenced by the business operations and can be anybody for instance, workers, providers, investors, clients, and government, etc.

Discussing the Corporate governance development in Pakistan, it was made compulsory under the corporate administration code presented by SECP in 2002 for the CG changes in all the listed firms of Pakistan to conform to significant arrangements of the corporate administration code. The recorded firms are at risk of unveiling the trades about profits, AGM, board changes, and capital increments. With the help of this code, the investor's rights are secured and they are given the option to request an assortment of data from the firm and can even grumble the SECP identified with the non-payment of dividends. Thus, the quality of the disclosures of a firm has improved in the last four years due to more effective monitoring of the SECP and the obligation towards the corporate governance code.

According to the study of Shleifer and Vishny (1997), corporate governance is a way through which the fund financial specialists of the organizations promise themselves of accepting a yield to their venture. With the help of this research, the corporate governance indicators can be used, such as; CEO duality, the board size, and ownership concentration, to evaluate the moderating effect of Political intervention on the relationship between firm value and Corporate Governance. Corporate governance in a firm is significant for practical financial advancement and in improving the company's general execution to gain the additional capital for the organization with the substantial laws of the company that can increase the firm's image. Political intervention is the critical factor in this research because Pakistani companies are greatly affected due to political instability and impact the governance performance of the firms. This creates a lower firm value and affects the organization's image in the market.

To analyze the monetary transactions of the firm, the firm value is a very significant notion that expresses the way wherein the money-related assets are accessible to a firm and are reasonably used to accomplish its corporate target, while making the potential for future changes to survey the firm performance. The firm value can be evaluated using the return on asset (ROA) as an indicator of Firm Performance (F.P). However, firm performance is a way in which a firm is performing, which might not only be determined by the efficiency and effectiveness of a firm itself, but it also depends upon the marketplace where it currently functions. While, in the financial sector, it is also identified as financial stability. Even though there are various measures available to estimate a firm's performance. The existing

research in corporate governance has assessed the connection between CG and FP, founded on the two significant presumptions that everything is equal.

An excellent corporate administration is esteemed, and, besides, productive markets do 'catch' the value of the good corporate administration, which is reflected in the price of the firm's stock. This examination depends on "The moderating effect of political interference on the affiliation between firm value and corporate administration,"; which will analyze the advantages and the disadvantages of governmental intrusions; overall in the industry. For example, lowering the rates, preferential excess to the government, or even private financing. This examination investigates how the firm execution impacts the outside and the inner corporate administration measures. And what are the significant circumstances under which the financial institutions and the government interfere in the operation of a firm?

Moreover, the inside corporate administration framework would accentuate the top managerial staff (BOD) while, regarding the outside corporate administration framework, the accentuation would be on both the private and open perspectives. By the methods for private and open outside government viewpoints, the private perspective, for the most part, manages the financier firms, banks, and insurance agencies. Whereas the public aspect duly relates to government interference. Also, the second significant goal of this investigation is to discover whether the firm execution is, therefore, useful for the organizations whose executives have a political foundation. Although the topic 'The relationship between CG and FV" has been fully discovered throughout the different industries of Pakistan. However, some writers were in the view that corporate administration has a substantial effect on FV and thus has a positive connection between CG and FV. Collectively, all independent variables have a significant impact on corporate administration, as indicated by a study in that a positive relationship can be observed among ownership and profitability (Abor and Biekpe, 2007).

Though indicated by few authors, some indicators of corporate governance do not have an immediate relationship to firm value, thus negatively affecting the firm value of the firm, for example, the concentration of ownership, the growth they have a negative relationship to firm value, there has been found a negative influence of duality (DUA) on the ROA (Chaghadari and shukor, 2011). In contrast, a study indicated a negative connection between the board size variable of CG and FP (Mashayekhi and Bazaz, 2008). Thus, the objective of this study is to fill this gap in Pakistan and consequently research the moderating impact of political intervention on the relationship between corporate governance and firm value. The significant goal of this investigation is to discover whether the FP is valuable for organizations whose executives have a political foundation.

- This study explores the relationship between corporate governance and firm performance.
- This research examines the moderating impact of political intervention on the relationship between corporate governance and firm performance.

THEORETICAL FRAMEWORK

The theoretical framework for this study explains the importance of theories being utilized to clarify the significance and impact of corporate administration; theories being used in this study are:

AGENCY THEORY

It is a theory as explained by its name is a theory arising among principal and agent, shareholders are the principals of a firm whereas their managers are agents, principal-agent problems; arises when the managers are more interested in their own best interests, which are contrasting the interests of the shareholder. As financial institutions play an important role, whereas, sometimes appointing representatives in BODs, there is a high degree of danger that the financial institution and the government possibly will pursue their benefits; by diminishing the adequacy and proficiency of boards monitoring power Subsequently, raising the chances of agency theory (agency problem) frictions, and inadequacies (Donaldson, 2012; Eisenhardt, 1989; Fama, 1980; Jensen and Meckling, 1979). This further debilitates the effectiveness of the resource dependence viewpoint. According to the board, resource dependency theory is a tool used for coping with the situation interpreted in agency theory.

RESOURCE DEPENDENCE THEORY

This theory depicts how firms' external resources would affect the behavior of that firm; not only this, but this theory also guides us that the corporate boards of the firm are a phenomenal device for handling the outside dependencies and so, lower environmental issues.

STEWARDSHIP THEORY

It is a theory that opposes the concept of agency theory as the managers of a firm are stewards of their responsibility concerning their shareholders and are given full authority to act as per their choices. Thus, they would act best for the shareholders. There have been various theoretical arguments in favor or in against toward the DUA, whereas the stewardship theory put forward that the DUA is a strong means to promote a strong dual management control than to a debilitate board's autonomy from its entire administration foreseeing in view its supervising role.

LITERATURE REVIEW

CORPORATE GOVERNANCE AND FIRM PERFORMANCE

Just about two decades back, the World Bank concluded a statement that corporate administration is a broad term arranged into two significant components. The one is the internal corporate administration, and the second one is the external corporate administration. Both classifications are an essential part of economic growth and for the country's development. The internal corporate administration reveals insights into giving priority to the interests of the shareholders and maneuvers the BOD to monitor the topmost administration of the firm. While on the other side, external corporate administration is essential for monitoring and supervising the external stakeholders of the firm, like debtors, suppliers, external authorities, etc. Whether internal or external, corporate administration has an immense part in enhancing FP (Cremers and Nair, 2005). Corporate governance is a broad phenomenon that discusses particular issues due to the interaction of senior management with its shareholders and other stakeholders (Tricker, 1994).

Immense research is accessible that explicitly and implicitly portrays the connection between the firm performance and corporate administration; there are empirical pieces of evidence and contentions both in against and favor of both ways. As indicated by some analysts, the pointers of internal corporate administration, for instance, the BS, DUA, and OC, positively affect the firm execution. However, few researchers guarantee that these markers depict an adverse impact on the FP. As indicated in the literature (Mashayekhi and Bazaz, 2008), there is a negative connection between the BS and the FP though, another study observed a positive association between the corporate administration marker, BS, and FP (Abor and Biekpe, 2007; Jackling and Johl, 2009; Kiel and Nicholson, 2003).

Moreover, Abor and Biekpe (2007) observed a positive connection between CG variable DUA and profitability, yet another study observed that DUA antagonistically influences the FP (Ehikioya, 2009). In the research by Morck et al. (1988), McConnell and Servaes (1990), and Sarkar and Sarkar (2000), they found a non-linear connection among the FP and ownership structure which provides the significance to the FP and the ownership structure. Another research conducted by Wiwattanakantang (2001) depicted a positive connection between F.V and O.C, as estimated by ROA and sales asset ratio, showing the firm value's influence in the market.

The internal indicators of corporate administration, which are BS, DUA, and OC have been briefly disclosed comparable to the theories of CG and their impact on the FP.

BOARD SIZE

Board members are the person who controls and deal with a firm as top administration and consequently, a compelling and sympathetic board is a definitive achievement of a firm. As indicated by a study that small BS is more viable than large BS; thus, small boards support and boost the firm's worth (Lipton and Lorsch, 1992). Jensen (1993) supported the same statement with the research concluded by Lipton and Lorsch in 1992 to show the impact of board size on the firm worth in the market. Yermack (1996) scrutinized a piece of information based on around 452 US industrial enterprises and watched an opposite connection between the BS and FP. Besides, in his examination, he evaluated that incremental expenses increase as the board size increases.

Alternatively, a study comprehends that enormous board sizes improve money-related execution (Chugh et al., 2011) even though ROA negatively correlates with BS (Ibrahim et al., 2010). Notwithstanding, it inferred that large board sizes are an approach to improve FP (Kyereboah-Coleman et al., 2007). On the other hand, Cheng Wu et al. (2005) investigated that BS has a negative connection to FP. The same argument was observed by Mashayekhi and Bazaz (2008) and concluded that enormous board sizes speak to a more vulnerable control in the firm administration. In research by Yermack (1996), the researcher deduced in an examination on an example of gigantic United States firms. Those organizations with small BS have higher stock markets than those with large board estimates that established an inverse relationship among the BS and FV. However, Kathuria and Dash (1999) examined that large board size increases firm performance. On the contrary, resource dependency theory depicts that a large number of BOD in a firm's board have more external links increasing the firm's access to external resources, playing a positive role in advancing firm performance.

CEO DUALITY

CEO duality alludes to the aspect when one individual out of the governing body (BOD) is the CEO and the Chairman in one firm at the same time. CEO duality unfavorably influences the firm's execution as the agency problem takes over. Yermack (1996) concluded, based on an example of about 452 U.S. publicly operated firms from a timeframe somewhere between 1984 and 1991, that the organizations are viewed as progressively significant and successful if there is no CEO duality. Agency Theory is a viable theory of corporate administration (C.G) that delineates that CEO duality is an important factor in decreasing the observing proficiency and viability of the BOD. As per the investigation proposed that jobs of CEO and chairman ought to be isolated from one another, or else the chance of CEO duality happens; at that point board will be ruled by the individual holding

the two major positions in the firm, creating an ineffective board with poor decision-making skills on the contrast (Fama and Jensen, 1983).

Yasser et al. (2011) discovered no meaningful connection between the CG variable DUA and ROA, a significant measure of firm performance. Additionally, Chaghadari and shukor (2011) investigation portrayed that CEO duality negatively impacts ROA. On the other hand, Chugh et al. (2011) concluded that DUA negatively correlates to FP. Moreover, Coleman (2007) stated that DUA negatively impacts ROA, but it also harms the firm's profitability. In this viewpoint, Cheng Wu et al. (2005) provided the same opinion that DUA has an inverse relation to FP. However, the stewardship theory of Corporate Governance proposes that CEO duality assumes a massive job in advancing progressive and profoundly solid authority characteristics instead of an incapable board's administration. Whereas, Resource Dependency theory additionally proposes that an organization's BOD is a gadget to oversee and support the outer conditions and therefore diminish future ecological vulnerabilities. Accordingly, CEO duality underpins in settling ideal choices timely which positively influences the performance of a firm.

Brickley et al. (1997) concluded that there is no ideal authority structure. Both the CEO duality or separate positions for the CEO and the Chairman have their related expenses and advantages. In this manner, CEO duality can be viewed as essential for specific organizations, while even a few firms can perform better by separating the two positions. Boyd (1995) indicated in his research that the CEO duality could positively affect the firm execution, however, under a few industry conditions, it may have a negative; hence its sway relies on the overall business conditions. A study conducted by Abor and Biekpe (2007) on Ghana in 2007 about the small and medium enterprises where observed a positive connection among DUA and FP. Their examination of little and medium undertakings in Ghana discovered that DUA and FP have a positive relationship. However, Ehikioya (2009) inferred that DUA antagonistically influences FP. On the contrary, Jackling and Johl (2009) found no major connection between the CEO duality and FP in their research of the top recorded Indian Firms. Several assessments have identified with the connection between CEO duality, a corporate administration pointer, and Firm Performance.

OWNERSHIP CONCENTRATION

Here, maybe a tremendous influence of a firm ownership structure on the F.P. As a rule there are two significant kinds of ownership structures found in any firm which is either concentrated or dispersed. Whereas in the developed nations, the dispersed OC is more common. Still, in the developing nations, OC is observed to be more concentrated (scarcely any investors holding a significant amount of shares given by the organizations

or a small number of shareholders holding a significant percentage of shares issued by the firms) which completely portrays a frail approved framework which secures the premiums of the generally minor financiers.

In actuality, the block holders are viewed as more effective and skillful than the scattered investors having a little ownership in a firm while observing the movements of the firm's administration, as the block holders have more ownership in the firm thus having stronger voting power, and so liable for all the risk taken through their decision making (Berle, 1932; Jensen and Meckling, 1979; Shleifer and Vishny, 1986). Shleifer et al. (1999) and A. Cheema (2003) evaluated that the firm performance changes fundamentally with the various kinds of investors/proprietors. As explicitly in Pakistan, huge shareholdings are progressively normal, so it appears interesting to find the association between the concentration of OC and its characteristics with the FP.

CONTROL VARIABLES

Numerous Empirical investigations evaluating the connection between corporate administration pointers and the FP utilized F.SIZE and LEV as the controlling factors. As indicated by an investigation, debt/obligation is a method of diminishing the agency costs of the free cash flow by lessening cash flow accessible for the use of the prudence of the managers (Jensen, 1986). In this manner, the moderation of the contentions between the supervisors of a firm and their outside investors may become the motivation to expand the firm's worth. There is generally more diversification in large-scale corporations; thus, there are fewer chances to default due to their obligations. Besides, these enormous scope firms appreciate the economies of scale, consequently positively affecting the firm performance. Several studies investigated a positive connection between the F.SIZE and money FP, for instance, the investigation of Ehikioya (2009), Gleason et al. (2000), and Majumdar and Chhibber (1999) indicated a positive connection among these two factors. On the other hand, Ghazali (2010) investigated the records of non-financial corporations of Malaysia and analyzed that the F.SIZE and FP have a negative relationship.

POLITICAL INTERVENTION AND FIRM PERFORMANCE

Literature related to political intervention is minimal as there has been little research regarding this topic, especially in Pakistan. However, looking towards the pioneering work regarding political intervention and the political roles played by outside directors in a firm, the results showed that when governmental issues become significant for a firm, at that point the firm attempts to include more executives for the board with progressively political foundation or experience (Agrawal and Knoeber, 2001). Though a study on

the organizations of 42 nations by Faccio (2006) addressed that the government-connected BOD and politically associated firms can access the debt financing and appreciates more noteworthy market control without much stretch access even with the lower tax collection. These establishments are viewed as stable because of the classifications of the resource dependency theory. Morck and Nakamura (1999) investigated that other than the politically associated firms and financial institutions might employ executives and delegates in the BOD, to assist the firm with solving its issues.

Faccio (2006) discovered that the politically associated firms could be rescued without much stretch than the non-politically and non-associated firms. Though, the firm execution of the rescued politically associated firms is lower than that of the non-associated firms. A further investigation analyzed the CEOs in China who will generally appreciate more grounded associations and systems with the government. Their organizations ordinarily experience frail administration and low proficient capabilities (Fan et al., 2007). Directors with the political foundation impact the board choices through a higher level of political inference to seek after the political targets, even though antagonistically influence the F.P (Li and Liang, 2012). The resource dependency theory expects that organizations with political associates have competitive advantages (M. U. Cheema et al., 2016).

RESEARCH METHODOLOGY

A total of 553 firms, including financial and non-financial firms, are listed on Pakistan Stock Exchange (PSX) in 2020. For this research, a sample has been selected from the 3 sectors of Pakistan, which are Fertilizer Industry, Sugar Industry, and Oil and Marketing Sector, to study the moderating impact of political intervention on the relationship between corporate governance and the firm value of cooperation's in these sectors of Pakistan for the period of 2010 to 2020. This investigation is explicitly being led in these divisions because these are the one that continually faces political intervention or government interference. Furthermore, many governing bodies of these organizations have a government official or political background.

Model Specification

The econometric model for the research without the impact of moderation effect of political intervention is as follows:

$$FVIT = \beta 1\ BSIT + \beta 2\ DUAIT + \beta 3O.CIT + \beta 4LEVIT + \beta 5FSIT + \zeta IT \qquad (1)$$

Where,
FVIT represents "Firm Value" for firm I with period T.
BSIT represents "Board Size" for firm I with period T.

DUAIT represents "Duality" for firm I with period T.
O.CIT represents "Ownership Concentration" for firm I with period T.
LEVIT represents "Leverage (Debt / Assets)" ratio for firm I with period T.
FSIT represents "Firm Size" for firm I with period T.

Following is the econometric model for the moderation effect of political intervention:

$$FVIT = \beta 1\ CGIT + \beta 2\ P.IIT + \beta 3CGIT\ x\ P.IIT + \beta 4\ CGIT + \beta 5LEVIT + \beta 5FSIT + \zeta IT \quad (2)$$

Where,
FVIT represents "Firm Value" for firm I with period T.
LEVIT represents "Leverage (Debt / Equity)" ratio for firm I with period T.
P.IIT represents "Political Intervention" for firm I with period T.
FSIT represents "Firm Size" for firm I with period T

OPERATIONALIZATION

Dependent Variables

The dependent variable in this study is FV, which measures the firm's profitability. Firm Value can be identified how the money-related assets of a firm are widely used to achieve the corporation's target. Firm worth can be estimated by ROA. ROA is a pure measure of a firm's profitability representing how gainful a corporation can be compared to its total assets. For calculating ROA, the net income of a firm is divided by the total assets. F.P is estimated through ROA. Numerous authors have utilized these factors in their assessment to gauge FV; for instance Javed and Iqbal (2007) and Dar et al. (2011) estimated FP through ROA in their research. A few researchers have worked on these variables under different mechanisms and concluded a positive connection between CG and F.P.

Independent Variables

The Independent variable in this study is CG indicators, which are board size, and CEO duality. Normal board size in a firm is viewed as 9; however, usually, the perfect board size is viewed as 7. Typically, the board size in a firm ranges from 6 to 15 individuals is entirely perfect for supporting the firm execution (Brown and Caylor, 2004). CEO duality (DUA) indicates that the CEO and the Chairperson are the individual and the person simultaneously. Thus, the agency theory suggests that CEO duality lessens the viability in the administration by the BOD. The Ownership concentration (O.C) is another variable which is the shares owned by an individual investor or financier that consists of small and large block holders. It is calculated by dividing the last five large block holders by the total number of shares

outstanding. Several researchers have utilized these previously mentioned characteristics (board size and CEO duality), to quantify or to assess an organization's corporate administration. K. U. R. Cheema and Din (2013) have researched these CG attributes under a different context. Sheikh et al. (2013) stated in research that "CEO duality has a positive relationship to (EPS) only."

Control Variables

The control variable is the factors that are consistent in analysis and don't change during the investigation, thus, the control variables allow to test of the connection between different factors to make the understanding clear. Control factors in this investigation are Leverage, and firm size. LEV is the ratio a firm uses to assess the amount of debt a firm uses to finance its asset. To calculate it, a firm's Debt is divided by its equity. The high leverage ratio specifies that the assets purchased by the firm are funded with the debt. Firm size (FS) is calculated as Ln (total assets). Several studies observed a positive association between F.SIZE and FP (Ehikioya, 2009; Gleason et al., 2000). In their examination, Sheikh et al. (2013) discovered that LEV is adversely related to ROA.

Moderating Variables

Political Intervention is the moderating variable in which we need measurement of two further variables: Government Ownership (GOV_OWN) and Government Appointed Directors (GOV_APP). The first variable of Government Ownership (GOV_OWN) can be calculated as the number of shares the government owns in a firm, and it is estimated by dividing the government shares by total outstanding shares. The second variable of Government Appointed Directors (GOV_APP) can be calculated as a proportion of the number of directors with a political or government official background to the total sum of BOD.

Table 3.1: Variable Measurement

ROA	Net Income / total assets	Colman (2007)
BS	Number of directors on board	Mashayekhi and Bazaz (2008)
DUALITY	0 or 1 are used for specification	Yasser, Entebang, and Mansor (2011)
OC	Amount of stock of 5 large block holder / overall stock	Attiya Y. Javid and Robina Iqbal
FS	Log (TA)	Mohd Ghazali (2010)
LEVERAGE	Debt/shareholder equity	Jensen (1986),
Government Ownership	Total shares owned by government / the total outstanding shares.	Hsin-Yi Yu and Brian G. M. Main PI (2012)

Government Appointed Directors	number of directors that have a political background / the total number of BOD	Hsin-Yi Yu and Brian G. M. Main PI (2012)

HYPOTHESIS

Firm Value gauges the organization's profitability, FV identifies how a firm will utilize its monetary assets to accomplish the organization's overall corporate goal. Corporate administration alludes to the instruments, relations, and procedures by which an enterprise is overseen, controlled, and coordinated and is estimated through Tobin's Q, while FV is estimated through ROA.

H1: There is a significant relationship between Corporate Governance and Firm Value

H1a: There exists significant relationship between BS and ROA.

H1b: There exists significant relationship between DUA and ROA

H1c: There exists significant relationship between OC and ROA

Moderator Hypothesis

In this investigation, the variable indicating the moderating effect is Political Intervention. Observational investigation inspects the moderating effect of political intervention on the connection between CG and FV; also it will examine the focal points and the detriments of governmental interferences for instance, brings down the rates, excess to the government, or even private financing. An increase in political interference in an organization diminishes the power of the effect of corporate administration on the FV. Political interference is estimated through Government Ownership, Number of Shareholdings, and Government Appointed

H2: There exists a significant moderating impact of political Interventions on the relationship between Corporate Governance and Firm Performance.

RESULTS

Descriptive Statistics

Table 4.1: Descriptive Statistics

Variables	Obs	Min	Max	Mean	Std. Dev
BS	287	7	19	8.76	2.215
DUA	289	0	1	0.22	0.418
FS	311	17.1900	27.8900	22.5424	1.9345

LEV	311	-20.1600	25.7000	2.7675	8.2922
ROA	310	-15.0900	15.9500	0.4319	5.6129
OC	283	0.1300	1.1200	0.6236	0.1804
GOV_OWN	286	0.0000	0.7099	0.1066	0.1449
GOV_APP	289	0.0000	1.0000	0.2836	0.2918
Valid N (listwise)	275				

The descriptive statistics table provides the information for the total number of observations, minimum, maximum, mean, and standard deviation of each variable. The statistics show that the highest standard deviation is of a firm's financial leverage, which is 8.2922, which means the data is highly clustered around its mean. In contrast, the lowest standard deviation is GOV_OWN, which is 0.1449, which means it is least clustered around its mean. The dependent variable of ROA shows an average mean of 0.4319 with the standard deviation of 5.6129, showing that the dependent variable has the average variation of data from the 3 sectors selected from the Pakistan stock exchange. The highest mean is of the firm size of the companies that are reasonable to be high due to the firm worth in the market. Moving towards the moderating variables, the results depict that the GOV_OWN has the 70.99% maximum range, which means that there are 70.99% ownership of the government in the political intervention and a 100% maximum range of government-appointed directors. Both moderating variables provide the highest range for the maximum political intervention in the firms. On the other hand, the mean value of GOV_OWN is 10.66%, and GOV_APP is 28.36%, which is relatively low compared to the maximum value range resulting in the descriptive statistics table.

Hausman Test

The Hausman Specification test is conducted to select an appropriate model from fixed effects or random-effects model for hypothesis testing. The result shows a significant value of 0.023, which is less than the 5% significance level. Hence, the random effect model is not significant for our regression analysis as the null hypothesis states that the random effect is appropriate for further testing, which is rejected from the results; therefore, the alternative hypothesis of fixed effect do not reject so we have to perform the fixed effect testing for our further analysis.

Regression Analysis

Table 4.1: Descriptive Statistics

Variables	Symbol	Co-efficient	P-value
Board Size	BS	-0.29579	0.422
Duality	DUA	-0.08428	0.932
Firm Size	FS	-1.53871	0.017**

Leverage	LEV	-0.22506	0.000**
Government Ownership	GOV_OWN	-12.0055	0.051
Government Appointed Directors	GOV_APP	10.0899	0.018**
Ownership Concentration	OC	-0.85976	0.842
Cons_		37.03758	0.025**

** show the statistically significant variables at 5%.

For panel regression, it is essential to classify the type of effect to be performed for further analysis. For further analysis, it can be a fixed effect (FE) or random effect (RE) model. The Hausman test was performed, which suggested that the FE is more appropriate and effective, as discussed earlier. Moreover, while examining the research question of our study, it's vital to assess the degree of the association among the explanatory variables. Therefore, the Pearson correlation has been processed to analyze if any multi-collinearity problem exists, but the results did not show any collinearity issue among the variables.

From the regression results, the board size has an insignificant impact on the ROA as the p-value shows 42.2% significance which does not fall in the level of significance at 1%, 5%, and 10%. This means BS and ROA have an inverse relationship with a magnitude of -0.295. Thus, we conclude that there exists a negative relationship between BS and ROA. The study of Ibrahim et al. (2010) discovered that ROA negatively correlates with BS. Moreover, Cheng Wu et al. (2005) also investigated this relationship. They found out that BS has a negative connection to FP. As illustrated in the literature, BS has a negative impact on FP; this statement can be linked with Yermack (1996) research, showing an inverse relationship between the BS and FV.

Moving towards the DUA variable, it has a negative relationship with ROA, a measure of FP with a magnitude of -0.842. Therefore, DUA has an insignificant impact on ROA, as it is insignificant at 93.2%. Thus, we conclude that there exists a negative relationship between DUA and ROA. This can be supported with the research of Chugh et al. (2011), who concluded that DUA is negatively correlated to FP. Moreover, Coleman (2007) concluded that DUA negatively impacts ROA, but it also harms the firm's profitability.

The ownership concentration has an insignificant impact of ROA which means that the small and large block holders do not have an impact on the firms' profitability. It is insignificant at 84.2% at a magnitude of -0.859. Thus, we conclude that there exists a negative relationship between OC and ROA. According to the research of Lehmann and Weigand (2000), there is a negative connection between OC and profitability. Firm size has a negative yet significant impact on ROA, which is a measure of FP. The magnitude of

the inverse relationship between F.SIZE and ROA is -1.53. However, F.SIZE poses a significant impact on ROA at 1.7%. Ghazali (2010) evaluated a negative relationship between F.SIZE and FP. LEV has a substantial effect on ROA at 1% level of significance with the negative or inverse relationship with the ROA. This means that the leverage has an essential impact on the firms' profitability. Many authors have utilized this variable as the control factor in their examination up until this point.

The primary purpose of the research is to analyze the moderating effect of the political intervention on the corporate governance and the firm performance where the two variables of government ownership and government-appointed directors were used for the moderation. Government ownership has a negative impact on ROA, which is a measuring factor of FP. They are negatively correlated to each other with a magnitude of -12.005, but it is insignificant at 5.1%. Thus, we can conclude that a negative moderating impact of political Interventions exists in the relationship between Corporate Governance and Firm Performance. According to the study of Yu and Main (2010), PI has a negative and insignificant impact on FP, but it does not mean that there would be no significant association at all at work. The relationship between BS, DUA, and OC with FP is negative; thus, the empirical results are consistent with hypothesis.

The second variable of PI is Government Appointed Directors has a positive yet significant impact on ROA, which is a measure of FP. The magnitude of the positive relationship among GOV_APP and ROA is 10.089, with a significant impact of 1.8%. Thus we reject the H0 in hypothesis 2 and accept H1 and conclude that there exists a positive moderating impact of political Interventions on the relationship between Corporate Governance and Firm Performance. The average mean of GOV_APP is 0.301938 (30.19%), as illustrated in table 4.1. The mean value of this variable is very high; thus, it indicates that, on average, a firm, according to the sample of this study, appoints 30.19% of directors who have a government official or bureaucrat background or he has a politically connected background. The reason behind appointing the directors having political or government official background is usually that the firms need to take advantage of firm-government linkages as these linkages make FP more effective.

Moderation Results

Table 4.3: Moderation Results

Moderating Variables	Symbol	Co-efficient	p-value
Government Ownership	GOV_OWN	-5.2417	0.000***
Government Appointed Directors	GOV_APP	0.7399	0.3588

In table 4.3, moderator variable 1 (GOV_OWN) shows that its coefficient value is -5.2417. In contrast, its P-value is 0.0000, which

indicates that the Political Intervention and the independent variable BS have a negative yet significant impact on the FP. Therefore, government ownerships impact the firm's performance, and their value in the market may be affected. While, moderator variable 2 (GOV_APP) depicts that its coefficient value is 0.7399 and its P-Value, which is 0.3588, which shows that the Political Intervention and the independent variable BS have a positive yet insignificant impact on the FP. Hence, the results conclude that the political intervention does impact the Pakistani firms of the 3 sectors. There is a chance that other sectors might also be affected by the political interventions because Pakistan faces political instability now and then, which significantly affects the capital market.

DISCUSSION

The study investigated the moderating effect of the political intervention (GOV_OWN, and GOV_APP) on the connection between CG (BS, DUA, and OC) and the FP (ROA) in Pakistan. This study addressed the significant corporate administration aspects for Pakistan's listed companies yet united together the theoretical and experimental parts of the firm value implications of political intervention. CG is a framework that helps to oversee and control a firm; it incorporates rules and regulations needed to govern a firm and the laws administering the firm. Whereas, Firm Performance is a way in which a firm is performing, which might not only be determined by the efficiency and effectiveness of a firm itself, but it also depends upon the marketplace where it currently functions. Significantly, splendid corporate governance in a firm prompts practical financial advancement using improving the corporation's general execution and giving organizations access to additional (outside) capital. According to the study of Shleifer and Vishny (1997), founded that the CG is a way to fund financiers of the organizations and promise themselves of accepting a yield to their investment.

Table 4.1 shows descriptive statistics for the variables of CG, FP and PI for the time period of 2010 to 2020, for 3 major sectors of Pakistan i.e., fertilizer sector, sugar sector, and oil and petroleum marketing sector. This table provided the basic level information of all the variables to create a perception of whether there is a high difference in the minimum and maximum value, which might affect the mean value and ultimately causes the high deviation in the variable from the mean. In this regard, LEV showed the highest deviation among all the variables showing high deviation in the data. We can see from the results that the board of directors is on average 8, which means that there are 8 board members in each firm, which provides the firm's suitable board structure and corporate governance. The study of Jensen in the year 1993 supported the research of Lipton and Lorsch that suggested that seven to eight people on board make a perfect board. Howsoever, board size is also dependent on the industry and the nature of business (Jensen, 1993; Lipton and Lorsch, 1992). Diversity in BOD helps

the corporation reduce the uncertainties and work in more efficient strategies for the firm (Adams and Mehran, 2003).

Other than the descriptive statistics, the normality of the data has also been achieved and analyzed with the help of normality tests and diagrams so that the results can be verified with the help of more than one result. The multi-collinearity test has also been checked, showing no high correlation among the variables, which might affect the results. For further analysis, the heteroscedasticity and autocorrelation tests have been performed. There was no violation of regression assumption in the data, which leads to misleading results in the regression analysis. The regression analysis in Table 4.2 shows the significance for the constant variables of firm size and leverage of the firms and the moderating variable of GOV_APP, which is government-appointed directors at the 5% level of significance showing the impact on the firm performance.

From the regression analysis results, the GOV_APP variable showed significance for the ROA, whereas the GOV_OWN showed insignificance with the ROA. On the other side, when the moderation has been processed with the help of these two variables of political intervention, opposite results are concluded which showed that the government ownership has the negative but significance impact on the firm performance and government-appointed directors have the positive but insignificant impact on the firm performance. Therefore, it can result that the political interventions do have an impact on corporate governance and the firm performance. However, firms with poor performance and governance may appoint directors with political or government official backgrounds to take advantage of firm-government linkages, advantages like lower taxes, preferential access to government, and even private financing to improve their performance and to acquire the support of the government (Yu and Main, 2010). In spite of the expectations of resource dependency theory, government-level interventions are not positively associated with FP or the board's monitoring ability.

CONCLUSION

This research aims to investigate the moderating effect of Political Intervention on the association between corporate governance and firm value in Pakistan. The research not only addresses major corporate administration aspects for Pakistan’s listed companies but additionally unites together the theoretical and experimental parts of the firm value implications of political intervention. Moreover, this research has significance as there has been no research done in Pakistan yet; besides, this examination will provide a discernment to the financial specialists that how political interference would influence a firm’s internal and external matters, and provide an idea if these political interventions have a beneficial or a detrimental impact on the association between FV and CG. The research has been conducted based on

the data taken from the 3 significant divisions or sectors of Pakistan i.e., Fertilizer Industry, Sugar Industry, and Oil and Marketing Sector, to study the moderating impact of political intervention on the relationship between corporate governance and the firm value of corporation in these sectors for the period of 2010-2020. The investigation is explicitly being done in these divisions because these are the one that continually faces political intervention or government interference. Furthermore, many governing bodies of these organizations have a government official or political background.

CG is a framework that helps to oversee and control a firm; it incorporates rules and regulations needed to govern a firm and the laws administering the firm. Whereas, Firm Performance is a way in which a firm is performing, which might not only be determined by the efficiency and effectiveness of a firm itself, but it also depends upon the marketplace where it currently functions. The basic reason for this research was to see if PI has a direct effect on the relationship of CG and FP. The research was conducted on Pakistani firms to observe if the political intervention plays a vital role in the firm's administration and profitability because there is high political instability and weak governance at the government level, which affects the capital markets as a whole. Due to high instability, there is a chance that politicians might control firms in a way they can benefit themselves and pursue their personal goals.

With the help of regression and moderation analysis, we can see that the political interventions do have an impact on the corporate governance and the firm performance with the results of the significance of the political intervention indicators because if government have a higher share in any firm, then they can hold the major part of the firm and have a stronger say in the activities of the firm. Most of the time, the reason behind appointing the directors having political or government official background is that the firms need to take advantage of firm-government linkages as these linkages make FP more effective. Firms with poor performance and governance may appoint directors with political or government official backgrounds to take advantage of firm-government linkages to improve their performance and acquire the government's support (Yu and Main, 2010). The research was based on the three sectors of Pakistan; thus, there were some limitations faced during this research work. Regarding the collection of PI variables because the measurements are not available, firms do not disclose much information in their annual reports or website disclosures. For Future studies, the same set of variables can be used to test the impact of PI on different sectors of Pakistan and using other dependent variables such as ROE or EPS.

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