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The Linkage between Corporate Board Independence and Firm Performance: Empirical Evidence from the Family Firms in Pakistan[1]

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Abstract: Everywhere around the globe, family companies are a prominent and quite sound identity. Dominant families have a solid motive for extracting personal advantages through minority shareholder resource exploitation and indulging in lessening the shareholders' wealth, especially in developing countries. An effective governance system guards against these activities while still influencing long-term results by eliminating these. This analysis broadens this focus by exploring the impact of independent directors, board scale, leverage, dividend delivery, and firm size on financial performance in Pakistani listed family-owned businesses. Secondary data from released annual reports and governance practices reports was used to analyze 212 family-owned firms from 2010 to 2017. Throughout this analysis, the static or dynamic models: fixed - effects (FE), random effect (RE), and generalized form of the moment (GMM) are important measurement methods. The findings indicate that board independence positively impacts firm financial efficiency, suggesting that governance is successful in family businesses. In contrast, board size has a negative impact on the performance of a firm, offering ineffective governance. Finally, the study includes governance suggestions for lenders as well as all other stakeholders.

Keywords: Family Firms, firm financial performance, Emerging Economy, Board Independence, Board Size

1. Introduction

Corporate governance has evolved exponentially over the past three decades due to its association with many financial crises and failures worldwide (Nam & Nam, 2004; Johnson et al., 2000). Experts think that such scandals occurred due to regulatory failures, which had a direct impact on the execution of

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corporate legislation (Tourani et al., 2010). It is a cause mainly in the Asian Financial crisis in 1997 (Lemmon & Lins, 2003). It is frequently claimed that somehow a failure of robust and stable corporate governance mechanisms was a significant trigger of the 2008 financial crisis. As a consequence of the recent recession, several foreign organizations, including the Organisation for Economic and Development (OECD), have issued corporate governance rules and encouraged all countries to follow world corporate governance standards (OECD, 2004). These standards, which are composed of different components, including regulations, legislation, and company practices, serve as the foundation for good governance (Okpara, 2011). Corporate governance was established in companies with a diverse equity system to meet the shareholders' interests and administrators. These companies can be located in developing countries, including Great Britain and the United States (Gugler et al., 2008). As per Cadbury (1992), corporate governance relies on different structures that oversee and direct companies to make sure active participation of shareholders and managers in the business decision to increase stakeholder resources.

Corporate governance is also an essential accessory for monitoring management and supporting a business in optimizing its performance (Ghabayen, 2012). Corporate governance strategies vary significantly across countries due to several reasons such as regulatory, structural, fiscal, and company circumstances. Consequently, to ensure effective corporate governance, the OECD proposed that the framework of these principles be updated based on each country's conditions. Besides that, ownership structure profoundly impacts the efficacy of corporate governance policies in any region (Schleifer et al., 1997). There is a causal link regarding changes in corporate ownership structures and the different forms of corporate governance that operates from region to region (Sing et al., 2008; Pindado et al., 2004). Distinctions between the essence of the company and the ownership arrangement will often lead to improvements in organization effectiveness (Hussainey et al., 2003). Despite the importance of corporate governance, as per Gillian (2006), good governance is an essential method for evaluating agency problems arising from both decentralized and consolidated ownership while protecting the privileges and concerns of investors.

According to recent studies on company ownership rates, family businesses account for a sizeable chunk of the business sector in most nations. This type of company isn't immune to the agency dilemma, which is defined by a fundamental difference among family and non-family investors (Bebchuk et al., 1999). As per Schulze et al. (2001), family companies have had more agency problems than non-family companies because of immunization regulation, benevolent behaviour, and exploitation of minority shareholder privileges because of their benefits. Consequently, Mustakallio et al. (2002) highlighted the importance of a governance structure that promotes family business prosperity while reducing agency conflicts.

In Pakistan, as throughout many Asian nations, companies are clustered in possession of a few prominent investors, with the promoter and family members usually controlling a substantial amount of shares and wielding significant power over the top business. Family members can also hold positions in the management of a corporation, like chairman of director and senior executive. Furthermore, it is recommended that, instead of focusing solely on experience or credentials, the appointment of directors and managers be affected by family ties and friendship, which undermine firm value (Hussainey et al., 2008).

Considering this void in the family business race, we add a predictor of corporate governance, the board's independence, and investigate to what extent it aids in minimizing shareholder organization disputes and increasing firm success in family firms. Existing research examined the effect of numerous corporate governance factors on a firm's performance (Guney et al., 2020; Sami et al., 2011; Khatib et al., 2020) such as large shareholders (Gompers et al., 2003), audit committees (Kent et al., 2008), CEO duality (Huining et al., 2014; Elsayed et al., 2007), company activity intensity (Brick et al., 2010), board independence (Yekini et al., 2015), board size (Akshita & Sharma, 2015), insider shareholders (Weir et

al. 2002). Literature is much too extensive to cover in this room. Few analysts studied the sustainability of family companies using the corporate governance system.

This study investigates the effect of corporate board independence on the financial performance of listed family firms in Pakistan's developing stock markets. This study investigates the impact of corporate governance on firm performance (FP), precisely the effect of board independence, the board size, leverage, dividend, and firm size on firm performance in Pakistani family businesses (FF). On secondary data from reported financial statements and governance practices reports of 212 non-financial listed family companies from the Pakistan stock exchange (PSX) from 2010 to 2017, the static and dynamic models: fixed effect (FE), random effect (RE), and generalized method of moment (GMM) are used. The findings indicate that board independence positively affects firm performance, showing that governance is active in family firms. In contrast, board size has a negative impact on firm results, suggesting ineffective governance. This study contributes by extending debates on corporate governance and firm performance in listed family firms in Pakistan's developing economy. Furthermore, it contributes by investigating board independence and board size on corporate company success in a listed family company in Pakistan's growing economy. It also examines the importance of company scale, leverage, and dividend yield in deciding family firms' corporate cash holdings.

The remainder of the paper is structured as follows; the next portion summarises relevant literature and the formulation of hypotheses. The third section goes into the data and analysis methods. Section 4 summarises the findings, and finally study the report conclusion section.

2. Literature Review

This section analyses the associated reviewed literature and the formulation of the study's hypothesis.

2.1. Corporate governance and the performance of a company

There is a large body of literature on the association of corporate governance (CG) and firm value. Al-Haddad (2011) discovered a favourable association between CG and corporate FP using 44 Jordanian classified companies as samples. Similarly, Elsayed (2011) examined the effect of board size on business results using a sample size of 92 Egyptian firms. According to this study, CG has a direct influence on the firm output. The same findings were obtained by Abdallah et al. (2017) using the variables ownership framework, CG transparency, and Firm Performance. The empirical analysis is carried out by (Yaser et al., 2011). From 2003 to 2005, a survey of 50 listed firms in Pakistan's non-financial field exhibited a strong association between company success and corporate governance. Correspondingly, Makki et al. (2008) investigated this interaction, but the findings were unclear about the relevance of the connection. As per the researcher's estimate, if the company correctly enforces governance rules, financial results would steadily improve. Instead, suppose companies don't adopt governance standards and engage in practises such as ignoring investors' privileges and failing to disclose performance metrics in accounting records. In that case, firms lose the satisfaction and engagement of shareholders and risk a decrease in company performance.

There is a variety of literature which analyzes the link between corporate governance practices and firm performance in advanced countries. Brown et al. (2006) discovered that well-governed companies generate equity and higher shareholder returns. Several research has shown that CG improves efficiency and increases the value of a business. Brown et al. (2005) stated that well-managed companies are more profitable, gain high predictive valuations, and generate higher returns for their shareholders. Likewise, Shaheen et al. (2007) investigated the relationship between CG and Company results and discovered a strong correlation. Using a subset of Pakistan's listed companies, Javed et al. (2006) examined the importance of CG in terms of company performance. Furthermore, they achieved a well-governed environment that revealed the low performance and weak management by transparent rules and transparency. Ehikioya et al., (2009) discovered a significant association between CG and company FP in

Nigerian stock exchange analysis; additionally, board directors play an essential role in the firm's success enhancement.

2.1.1. Independent Directors and Company Performance

Considering the significance of board independence among shareholders, regulators, legislators and many others, there is no solid empirical evidence linking this to financial performance (Yoshikawa et al., 2014; Adams, Hermalin, & Weisbach, 2010). However, the existing literature shows that the above interaction is lacking in countries where investors face inadequate security and where controlled firms are indulged in expropriation activities. (Yang et al., 2015; Liu et al., 2015). This is especially valid in Pakistan's stock sector, which has no security for investors and family firms gaining personal benefits. Brickley (1994) discovered a constructive association between board independence and share market reaction. There is an important relationship between board independence and firm performance (Yermack et al., 1996). Weisbach (1988), Anderson, Mansi, and Reeb (2003), Mura (2007), and Liu et al. (2015) investigated whether board independence is related to Company's performance. It could be defined as follows: the inclusion of independent directors implies the board's independence, which contributes to means of strengthening and regular basis to maintain settlement of internal conflicts of interest, and a decrease in the coordination distance with inside directors of the Company (Marashdeh, 2014). This is associated with the philosophy of agency. Yermack (1996), Agrawal and Knoeber (2001), Bhagat and Bolton (2008), and Arosa, Iturralde, and Maseda (2013), in studies conducted, investigated whether it is a significant relationship between board independence and firm results, while other studies, including those of Kajola (2008) and Peng (2004), found no significant relationship. Given the research in this field and Endogeneity between board independence and firm results, we propose the following hypotheses.

H_1: Board independence has a positive effect on the performance of listed family companies in Pakistan.

2.1.2. Board Size and Performance of Family Firms

It is open to debate what board size is best for company success (Van, 2011; Jensen et al., 1993; Yermack et al., 1996). According to specific reports, a little board of directors will help maximize the valuation of a company (Guest, 2009; Yermack et al., 1996; Jensen et al., 1993). However, some scholars argue that a big board is more successful because it facilitates procedure and prompts definitive critical management (Daniel et al., 2008, Coles, 2008; Coles et al., 2012; Adhikary et al., 2014). We create hypotheses like this as a consequence of confounding literature.

H2: *Board size has a negative effect on the performance of listed family firms in Pakistan*.

2.2. Firm Performance and Control Variables

Dividend Payout: Through multiple studies (Farsio et al., 2004; Arnott et al., 2003), dividend strategy remains an unsolved topic in corporate finance. Several explanations have been suggested to clarify the significance of dividend policy and how it impacts company valuation, but no consensus has been reached (DeAngelo et al., 2006). Researchers Amidu et al. (2007) and Howatt et al. (2009) keep producing new results about the relationship between dividend payment and firm efficiency. Amidu (2007) discovered that dividend policy affects company efficiency as calculated by profitability. The findings revealed a favourable and statistically relevant association between return on investment, return on equity, revenue performance, and dividend policy. Howatt et al. (2009) has concluded that increases in dividends are correlated with increases in return on equity in the future. *Firm Size:* Research on the impact of organizational size on organizational viability has shown conflicting findings, with some endorsing a favourable association between these variables and others rejecting it. Furthermore, this association could be favourable for certain firm size ranges and negative for others for the same firm study. In addition to the previously presented theoretical hypotheses, inconsistent observational findings can be the product of diverse experiments, industry sectors, time horizons, metrics, and business environments. As a consequence of the above, some of the experiments will be discussed in the future, along with their significant scientific findings. Akinyomi and Adebayo (2013) investigated the impact of organizational

size on firm value and found a positive association. *Leverage:* The effect of leverage on firm success is widely perceived to be uncertain, with some research showing a negative association (Salawu et al., 2007; Tian et al., 2007) and others indicating either a favourable or no meaningful interaction (Azeez et al., 2015). Theoretically, the divergence in prior research may be clarified in part by contrasting hypotheses. Theories including the signalling theory suggest that leverage must be positively linked to company benefit output in the face of asymmetric knowledge, agency costs, or pecking order theory, assuming a negative association between leverage and firm value to agency costs between management and creditors. Simon et al. (2011) investigate the effect of capital structure on industrial production by using debt finance as a proxy for capital structure and benefit productivity as a proxy for firm performance and negatively relationship.

H3: *Dividend positively influence the firm performance of listed family firms in Pakistan*

H4: *Firm size positively influence the firm performance of listed family firms in Pakistan*

H5: *Leverage negatively influence the firm performance of listed family firms in Pakistan*

3. Data Description and Methodology

The population consists of 558 listed businesses in Pakistan. Firms in the financial sector are exempt from the estimate. However, only non-financial companies are included in the current study's analysis. After that, we omitted non-family companies, leaving 256 family firms, but we could obtain details on 212 family firms and firms with fewer than 05 years of data being disqualified. Finally, for the panel calculation, we considered 212 companies. The sample includes 11 sectors of the Pakistan stock exchange, such as accessories, cement, fertilizer, automobile parts, oil and gas, and many more. The stability of family companies was taken into account in the selection criteria. The number of traded securities sold in the current year demonstrates a company's financial position.

3.1. Measurement of Variables

For our methodological research, study variables were divided into three categories: financial output is the dependent variable, and the independent variables are board independence, board size, and control variables: dividend distribution, company size, and leverage.

3.2. Dependent variable

In previous research, the authors employed market base and accounting-based different metrics to assess company value. Accounting-based metrics assess a company's actual financial worth. Market based firm worth, on the other hand, is determined by the investor's view. These tactics have received a great deal of scrutiny. A substantial volume of analysis examines the firm's value using Tobin's Q. (Kiel et al., 2003).

Tobin's Q ratios, which are described as substitute expense divided by equity's market valuation, are market-based proxies of company efficiency (Haniffa et al., 2006). For our analysis, we employed Tobin's Q ratio based on previous studies. This is written in the form

*Tobin's Q = (*Equity Market Value + Liabilities Market Value) / (Equity Book Value + Liabilities Book Value

3.3. Independent Variables

Board Independence: it is one of the independent variables used in this study and measure the total number of independent directors in board. *Board Size: it* is the actual board members (Yoshikawa et al., 2014). The number of members on the board at the end of the fiscal year (Coles et al., 2012). *Company Size:* The natural logarithm of a company's net assets is used to calculate its size (Akinlo et al., 2010). *Dividend payout:* the dividend-to-net-asset ratio (Adaoglu et al., 2011). *Leverage is described as the ratio of total leverage to a firm's net assets* (Azeez, A. A. et al., 2015). Table 1 contains information on all of our study's variables.

Table 1
Variables' Summary

Variable types	Variable name	Symbol	Variable clarification
Dependent Variable	Firm Performance	FRMP	(Equity Market Value + Liabilities Market Value) / (Equity Book Value + Liabilities Book Value
Independent Variables	Board Independence	BORID	No. of Independent Directors on board
	Board Size	BORSE	The entire size of the corporate board at the last of fiscal year
Control variable	Dividend Payout	DVDP	Dividend delivered to shareholders every year
	Firm Size	FRMSE	Ln of Total Asset
	Leverage	LVRG	the comparative ratio of net liability to total company assets

3.4. Econometric Methodology

The prior literature discussed the issue of endogeneity in the connection between corporate governance and firm value. There are some possible reasons for this in the literature. Ullah et al. (2018) concluded that the omission of endogeneity occurs in explanatory variables, causing these illuminating variables to be associated with predicted model residuals. Second, Demsetz et al. (2001) proposed that endogeneity may occur due to supernatural causation between corporate governance and firm value. Ordinary least squares (OLS) coefficients are deemed skewed and contradictory in certain situations due to Endogeneity and the unobserved firm's fixed impact (Nguyen et al., 2015). One logical approach is to use a fixed-effect model for the time-invariant unobserved Company's (fixed) effect, which may help to solve the Company's fixed effect dilemma. However, the issue of Endogeneity persists (Nguyen et al., 2015). Bhagat et al. (2008) proposed using similar equations, including 2SLS and 3SLS. Nguyen et al. (2015) and others advocate using the Arellano-Bond (AB) simplified system of moments (GMM) suggested by Arellano and Bond (1991). The GMM method corrects for Endogeneity without depending on external exogenous instruments, challenging to classify in 2SLS and 3SLS (Wintoki et al., 2012).

A pair of tests were carried out to confirm the suitability of GMM. Utilizing VIF tests to check for multicollinearity and means that the data is free of multi-linearity issues. The sargan analysis can be used to test the instrumental validity of over-identifying thresholds. The findings demonstrate the instruments' credibility, and the boundaries would be over-identified. AR (1) and (2) tests were performed to look for and rule out the auto-serial correlation.

This analysis estimates the following econometric equations:

$$\mathrm{FRMP}_{i,t} = \beta_o + \beta_1 * \mathrm{FRMP}_{i,t-1} + \beta_2 * \mathrm{BORID}_{i,t} + \beta_3 * \mathrm{BORSE}_{i,t} + \beta_l * \mathrm{IDSTY} + \beta_m * \mathrm{Year}_{i,t} + \varepsilon_{i,t} \dots\dots (1)$$

$$\mathrm{FRMP}_{i,t} = \beta_o + \beta_1 * \mathrm{FRMP}_{i,t-1} + \beta_2 * \mathrm{BORID}_{i,t} + \beta_3 * \mathrm{BORSE}_{i,t} + \beta_4 * \mathrm{LVRG}_{i,t} + \beta_5 * \mathrm{DVDP}_{i,t} + \beta_6 * \mathrm{FRMSE}_{i,t} + \beta_l * \mathrm{IDSTY}_{i,t} + \beta_m * \mathrm{Year}_{i,t} + \varepsilon_{i,t} \dots\dots (2)$$

Where;

FRMP = Firm Performance

BORID = Board Independence

BORSE = Board Size

LVRG = Leverage

DVDP = Dividend Payout

FRMSE = Firm Size

$\varepsilon = Error\ Term$

4. Empirical Findings

4.1. Descriptive Summary and Pairwise Correlation

The descriptive figures are shown in Table 2. Tobin's Q has an average score of 0.60, indicating that stock value was higher than book value for chosen non-financial family companies during the sample period. It also shows that customers have a good view of the firms' ability to leverage their resources (Lewellen et al., 1997). For the aggregate survey, the average board size is about 8.00. Previous observational experiments have shown that the current results are relevant (Bokpin et al., 2011). Similarly, 1.01 are independent directors on average for all board members of the whole study. These numbers are smaller than those found by Ullah et al. (2017). Inconsistent patterns may be attributed to differences in sample size and time horizon. The average firm size is 8.09, with a high of 12.82. The average dividend return in family businesses is 0.02, indicating an abysmal dividend-paying percentage in family businesses. The overall firm size is 8.09. The VIF test is also run, with no score higher than 10 in either result, the criterion, and a mean VIF of 1.16.

Table 03 displays the correlation matrix. Firm performance is positively associated with independent directors and dividend payout while negatively associated with leverage firm size and board size. There was no multi-co linearity in the correlation matrix of variables, and no significance equalled or exceeded the 0.7 thresholds.

Table 2.
Descriptive Summary

Variable	Mean	Std. Dev.	Min	Max	VIF
FRMP	0.60	1.06	0.01	16.67	
BORID	1.01	1.68	1.00	8.00	1.02
BORSE	8.07	1.74	6.00	15.00	1.12
DVDP	0.02	0.04	0.00	0.32	1.33
FRMSE	8.09	1.71	2.77	12.82	1.05
LVRG	0.61	0.26	0.03	0.99	1.26
				Mean VIF	1.16

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Table 3.
Pair wise correlations

Variables	(1)	(2)	(3)	(4)	(5)	(6)
(1) FRMP	1.000					
(2) BORID	0.093***	1.000				
(3) BORSE	-0.074**	0.051*	1.000			
(4) DVDP	0.393***	-0.088***	0.272***	1.000		
(5) FRMSE	-0.015**	-0.042	0.191***	0.073**	1.000	
(6) LVRG	-0.430***	-0.019	-0.157***	-0.441***	-0.134***	1.000

**** p<0.01, ** p<0.05, * p<0.1*

4.2. Association of CG and performance of Company

We address static models, as well as dynamic models with fixed, random, and GMM effects. Due to the distorted impacts of random and fixed effect, the only input is provided on GMM posts. The regression estimates for independent directors and board size for firm value along variables such as debt, dividend payouts, and corporate size are shown in Tables 4. The dependent variable is firm performance, while the independent variables are the independent board, the board size, debt, size of the organization, and dividend distribution.

Table 4.
Association of CG and performance of Company (Fixed Effect Model)

Static

FRMP	Coef.	St.Err.	p-value	Sig
BORID	0.012	0.02	0.46	
BORSE	-0.01	0.02	0.81	
DVDP	3.31	0.74	0.00	***
FRMSE	-0.01	0.03	0.71	
LVRG	-1.04	0.13	0.00	***
Constant	1.20	0.31	0.00	***
F Stat (P – value)	20.774 (0.000)		R-squared	0.089
Modified Wald test heterogeneity (P-value) 1.3e+09 (0.0000)				

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

Table 5 displays the model estimates for the association, board size, independent directors with other variables dividend distribution, leverage, and company size with firm performance. Firm value is a dependent variable. The size of the board and independent board are independent variables.

Table 5.
Association of CG and performance of Company (Random Effect Model)

Static

FRMP	Coef.	St.Err.	p-value	Sig
BORID	0.02	0.02	0.19	
BORSE	-0.01	0.02	0.94	
DVDP	3.82	0.70	0.00	***
FRMSE	-0.02	0.02	0.31	
LVRG	-1.24	0.12	0.00	***
Constant	1.46	0.26	0.00	***
Overall r-squared 0.322			Hausman Stat(P -value) **23.55** (0.002)	
Wald Stat (p – value)526.49 (0.000)			Chi-square (P -value) 176.317 (0.000)	
Endogeneity test: Durbin (score) chi2(1) 74.4582 *(p = 0.0000),Wu-Hausman F(1,1151)* 74.1276 *(p = 0.0000)*				

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

The Hausman test indicates that the fixed model is appropriate in our study for discriminating between fixed and random models since the extent of the p-value is less than 0.05. A revised Wald test established by (Christopher Baum) produces a p-value less than 0.05, causing the null hypothesis of homoscedasticity to be discarded. The endogeneity analysis demonstrates the presence of Endogeneity. As a consequence,

the fixed effect equations are vulnerable to Endogeneity as well as heteroscedasticity tests. As a consequence, we use the GMM assessment technique as well.

Table 6.
Association of CG and performance of Company (Fixed Effect Model)

		Dynamic		
FRMP	Coef.	St.Err.	p-value	Sig
L	0.49	0.02	0.00	***
BORID	0.01	0.01	0.64	
BORSE	-0.02	0.02	0.94	
DVDP	1.14	0.69	0.10	
FRMSE	-0.07	0.02	0.78	
LVRG	-0.71	0.12	0.00	***
Constant	0.77	0.28	0.00	***
F Stat (P – value)	76.666 (0.000)		R-squared	0.323
Modified Wald test heterogeneity (P-value) 5.7e+07 (0.0000)				

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

Table 7.
Association of CG and performance of Company (GMM)

		Dynamic		
FRMP	**Coef.**	**St.Err.**	**p-value**	**Sig**
L	.542	0.01	0.00	***
BORID	0.01	0.01	0.00	***
BORSE	-0.05	0.02	0.00	***
DVDP	0.80	0.07	0.00	***
FRMSE	-0.01	0.02	0.00	***
LVRG	-1.05	0.08	0.00	***
Constant	1.35	0.02	0.00	***
Arellano-Bond test(AR1-P) -1.558 (0.119)		Sargan test (p value)	79.5147(0.2059)	
Arellano-Bond test(AR2-P) 1.256 (0.209)		Wald Stat(p value)	(0.000)	

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

Table 7 reported negative coefficients of board size by adjusting for leverage, payoff, and firm size in regression, both of which are significant determinants of results. According to the study (Guest, 2009), a small board of directors will raise the firm worth. According to the analysis of Brickley et al. (1994), independent Board coefficients are positively related to company performance, which is compatible with the study, that lower knowledge asymmetry is correlated with higher BORID since external finance providers may perceive BORID as a strong indicator for a company. The debt coefficient is negative. Consistent with the findings of (Khan 2011). The dividend coefficient is positive with company performance; this positive relationship is supported by Hunjra (2018), who offers data on the positive effect of dividend payment concerning company performance. Firm Size has a negative coefficient on Tobin's Q, which is compatible with the analysis findings (Lee 2009).

4.3. Hypothesis Reliability- CG and Performance of a Company

The analytical findings discussed above are discussed, and their usefulness is checked following the table by relating them to earlier studies and a theory formed for this study. The hypothesis that has been established is summarised below.

Table 8.
CG-FRMP hypothesis findings, developed on outcomes

Variables	Variables hypothesis	Results
BORID	**H1:** Board independence has a positive impact on listed family firms' financial performance.	**Supported**
BORSE	**H2:** Board size positively affects the financial performance of listed family firms in Pakistan.	**Supported**
FRMSE	**H3:** Firm size positively influence firm performance of listed family firms in Pakistan	**Supported**
LVRG	**H4:** Leverage negatively influence the firm performance of listed family firms in Pakistan	**Supported**
DVDP	**H5:** Dividend positively influence the firm performance of listed family firms in Pakistan	**Supported**

5. Conclusion

This paper explores the effect of corporate governance on business performance, specifically the influence of independent directors, the board size, dividend distribution by the company, leverage, and size of a firm on a firm's performance in the case of Pakistani family businesses. In this analysis, the static and dynamic models: random, fixed effect, and generalized form of the moment (GMM) are the primary evaluation techniques. Secondary information for each subset of the family business's gathered from annual company statements, and firm governance statements and corporate websites were used to assess the efficacy of the CG on family companies' performance. This study addresses endogeneity by building confidence in these calculations by the use of 2- step GMM. The dataset includes 212 non-financial listed family firms from the Pakistan stock exchange from 2010 to 2017. Independent directors positively influence company performance, meaning that governance is successful in family firms, while board size has a negative impact, indicating ineffective governance. This research demonstrates that a greater board independent board is favourable for performance-enhancing strategies in terms of practical outcomes. Yet, a tiny board is more competitive than a large board.

We propose that prospective researchers concentrate on other corporate governance characteristics such as board diversity, board experience, the number of audit committees, and the involvement of the CEO and chairman in assessing corporate success as study guides. It can also be studied in other emerging markets such as India, China, and Malaysia.

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