Role Of Corporate Governance On SOE'S Financial Performance With Moderating Role Of Government Intervention

Muhammad Noman¹ , Badariah Haji Din²

Abstract
This study fills the research gap by examining the moderating role of government intervention between corporate governance, and the financial performance of State-Owned Enterprises (SOE’s). The data were collected from the top management of 202 SOEs of Pakistan. The study analyzed the data using structural equation model (SEM) and specifically the partial least square based structural equation modeling. Two-stage analysis approach was used to estimate the research model: the measurement model and the structural model. The results show that audit committee meeting, independent directors, management board size, and management board meetings have significant impact on SOEs' financial performance. Importantly, the results show no moderating role of government interventions between the proposed relationships of the study. This study is expected to contribute in threefold: increase the literature regarding the corporate governance and financial performance, examine the moderating role of government intervention between the corporate governance and financial performance of SOE’s, assists the regulatory authorities to establish and revise the corporate governance practice standards tailored to the unique context.

Keywords:
Corporate Governance, Government Intervention, Financial Performance, State-Owned Enterprises

Introduction

Today in borderless economies, it is more difficult for firms to perform competitively and attain sustainable growth. Especially the State-Owned Enterprises (hereafter SOEs') are facing challenges due to globalization. Regardless of negative perception about SOE’s financial performance, there are extensive examples that SOE's constantly sustained their good performances over a long period. A few of these examples are stated by Cheng, Lin,
Hsiao, and Lin (2010) such as awards won by Singapore Airlines, POSCO by Korean, Renault by a French group, Brazil’s member and transportation authority in India known as Bombay Transport Authority. In 2011, the world’s best airlines award went to government-owned Qatar Airlines which played a vital role in boosting the country’s economy.

Prior studies were conducted in emerging markets with higher economic performance, such as Taiwan, India, Thailand, Indonesia, and Malaysia. Nonetheless, Pakistan is different from other developing economies because of the balance of payment deficiency and macroeconomic problems caused by internal wars and high military expenditure (Bokhari, 1998; Elfgren & Persson, 2019; Estrin, Liang, Shapiro, & Carney, 2019; García-Ramos & Díaz, 2020; Globerman & Shapiro, 2008; M. Khan, 2008; Nurharjanto, Harsono, Suhardjanto, Lukviarman, & Setiany, 2018). In literature, various factors have been identified that strongly influence SOE’s financial performance. It is not easy to explain all factors conclusively and effectively with the help of a single theory due to the diversity in factors that influence the financial performance of SOEs. Literature suggests that corporate governance and government intervention (GI) play a critical role to resolve the issues related to SOE’s financial performance. In the past, researchers have reviewed independent and/or collaborative assessments on performance and corporate governance (CG) of SOEs (Daiser, Ysa, & Schmitt, 2017; Elfgren & Persson, 2019; Grossi, Giuseppe Grossi, Papenfuß, & Tremblay, 2015; Holland, 2019; Megginson & Netter, 2001).

Thus, it is essential to know that how the CG mechanisms and interaction of government intervention enhances the SOE’s performance. Although some studies ensured the influence of CG mechanisms on the performance of companies in Pakistan, but the results of these studies are inconsistent. There are rare studies that examined the direct relationship and moderating effect of GI on SOE’s financial performance in Pakistan. It is assumed that GI could strengthen CG mechanisms.

The significance of present research is not only to fill the gap but to enhance the body of academic knowledge in the shape of CG, GI, and organization financial performance in developing countries, especially in Pakistan. This study is beneficial for policymakers, researchers, regulators, decision-makers, and investors. Last but not the least, the study guide for weaker and private companies to adopt the best practices so that they can survive effectively in a competitive market.

**Literature Review**

**Agency Theory**

This theory suggests that when there are conditions of uncertainty and incomplete information, a situation creates problems that characterize and affect most business environments. The two most common problems for the organization are called moral hazard and adverse or unfavorable selection. In adverse selection, the principal cannot be confident
or sure that the agent has accurately performed the task that is being paid. In Moral hazard, the principal cannot confirm whether the agency has proposed a maximum or greatest effort or not (Eisenhardt, 1989).

In reality, CG is based on the complications of agencies rising from the two factors. These factors are division or separation of ownership and management (Eisenhardt, 1989; Yusuf, Yousaf, & Saeed, 2018). That is why the theory of agency is considered important in favor of the study of CG. Jensen and Meckling (1976) established the concept of the theory of agencies. The theory describes the kind of relationship that stakeholders, directors, and contract shareholders hold. Therefore, the board of directors acts as an agent of the stakeholders because they are interested in making decisions in their interests. According to Jensen and Meckling (1976), shareholders hire directors and managers to take the business decisions on their behalf but sometimes, they may unable to act according to the best interest of shareholders. Thus, this clear gap in the literature exists, and based on the agency theory, present study analyzed the relationships of management board size (MBS), independent director (ID), independence of committee (IOC), gender diversity (GD), audit committee meetings (ACM), and management board meeting (MBM) with the SOE’s financial performance.

### Resource Dependence Theory

The theory of resource dependency analyzes relationships between two parties in control. One party exerts control over the other when the latter is dependent on the former for some resource. The conventional approach for power relationships is to co-opt and incorporate those who have control within the company, connecting their goals with those (Salancik & Pfeffer, 1978). Therefore, in businesses that rely on government funding, such as securing loans from state-owned banks or receiving advantageous legislation, managers can co-opt the government by including politicians among its board members, or even paying for success schemes, to ensure that their interests are matched with those of the company. In the case of SOEs, politicians are members of the board of directors, and they follow their political agendas (Noreng, 1992). Therefore based on the resource dependency theory, the role of GI has been identified as the moderator that can influence the relationships of, CG, and SOE’s financial performance.

SOE’s Financial Performance
Several studies have analyzed corporate performance from different viewpoints, such as financial performance, the performance of the business unit, or organizational performance (Lucia-Palacios, Bordonaba-Juste, Polo-Redondo, & Grünhagen, 2014).

Company performance concerns organizational efficiency in terms of financial & operational performance (Saraf, Langdon, & Gosain, 2007; Venkatraman & Ramanujam, 1986). Performance can be evaluated from many perspectives, and some are discussed by (Kyriakopoulos, Meulenberg, & Nilsson, 2004), for example, accounting performance metrics, e.g., return on investment or solvency, are very difficult to calculate (G. Campbell & Kanjilal, 2021). Measuring firm success in the business administration sector is a multidimensional construct comprising the cooperative firm’s profit margin, market share, and growth relative to the key market competitors. Other indicators used in certain circumstances are satisfaction of customer (Ali & Raza, 2017; Devaraj & Kohli, 2000; Lanin & Hermanto, 2019; Mithas, Ramasubbu, & Sambamurthy, 2011; Ray, Muhanna, & Barney, 2005), value addition (Barua, Konana, Whinston, & Yin, 2004; Osei-Bryson & Ngwenyama, 2014; Saeed, Hwang, & Grover, 2002) and market share (Byrd & Davidson, 2003; Chou, Lin, Lee, Tao, & Qian, 2021; Grozdić, Marić, Radišić, Šebestová, & Lis, 2020; Sircar, Turnbow, & Bordoloi, 2000). However, it is not possible to quantify all the variables in the current study as this is based on primary research and the information needed as per the framework is not connected to some of the indicators, therefore, the present research include only such indicators such as financial performance of SOE’s.

Independent Director and SOE’s Performance

The directors are elected members through the votes of shareholders to run the company matters. These independent directors are known as executives’ members who played a vital role in controlling the problem of the agency. This is at the core of CG (Fama & Jensen, 1983). Literature has revealed that if the organization has an adequate number of independent directors that ensure effective oversight, the board will track the business better and take appropriate action (Jensen, 1993).

During the study in China, Peng (2004) found companies listed with independent directors make a difference in the performance of a firm, if the financial performance of such firm is measured by sales growth. It does have little effect on financial results, though, like ROE. Peng (2004) finding is steady, reliable and consistent with (Park & Luo, 2001) that associated independent directors put in mainly with revenue growth but not with to financial results of the company. This means that these directors can be more critical in setting up external sales ties than maintaining a higher financial output. Independent directors are essential aspect of sound governance structures because they represent the interests of the shareholders, carry additional experience, and contribute valuable business relations (Fama & Jensen, 1983). This study examines whether there is a positive relationship between independent
directors and financial performance:
H1: Independent directors are positively associated with SOEs' financial performance

Management Board Size and SOE’s Performance

Darmadi (2011) found evidence that the executive management size is positively associated with the financial performance of firms. This indicates that larger boards give listed companies greater difficulty in managing their company. Larger boards comparatively to small board may have more experience and skills, which would progress the success of the firms.

In his research on the listed manufacturing companies, Hapsoro (2018) found that the management board size has positive impact on the success of the company. The positive outcome shows that agency theory providing strong theoretical base for the relation between CG and firm’s financial performance. It is stated by Kumar and Singh (2013) that a negative connection between the management size and the financial performance of SOE’s. This is done in their analysis of listed firms in the Bombay Stock Exchange in India. Various empirical researches suggested that board size of management is a significant aspect for the success of financial firms. The essence of that relationship, however, is the subject of ongoing discussion. As said by Pearce and Zahra (1992), big board size increases the control power of the board of directors, thus the financial success of higher firms. Moreover, Dalton, Daily, Johnson, and Ellstrand (1999) found that firms who has large number of board of directors automatically performance better. The relationship between the board size of management and the financial performance of SOE is tested by the following hypotheses:

H2: Management board size is positively associated with SOE’s financial performance

Management Board Meetings and SOE’s Performance

Vafeas (1999) considered the frequency of management board meetings related to the firm's financial performance and to be consistent with the theory of the agency. After abnormally high board meetings, he finds that the company's financial performance increases in the next year. A statically significant relation was founded by (Ntim & Osei, 2011). The findings entail that the South African boards meeting held regularly to create greater financial performance. This demonstrates that frequency of boards meetings has positive impact on the SOE’s financial performance.

The financial results has impacted by the board meetings of the company and can vary with the characteristics of a company stage and with differences because each country has legal practices and CG that vary (Ntim & Osei, 2011). Many studies in Western settings
have suggested that the management board affects the firm's financial performance, for instance the percentage of external members in the board and how many times the of board meetings conducted during the financial year (Fan, Rui, & Zhao, 2008; Vafeas, 1999). On the basis of previous literature, this research examine the relationship of management meetings and the SOE’s performance through the following hypotheses:

H3: Management board meetings are positively associated with SOE’s financial performance

**Gender Diversity and SOE’s Performance**

Researchers have usually gauged gender diversity in many studies. The theory of agencies support a diversified board (Salancik & Pfeffer, 1978). As stated by Nekhili and Gatfaoui (2013), females are strong observers, and their presence in board may be reinforced by agency viewpoint. Studies have found that women on board can generate positive reactions to the stock market (K. Campbell & Vera, 2010) and higher operational efficiency (Nguyen & Faff, 2007). The Post and Byron (2015) meta-analysis showed that female directors could only positively impact firm results in the presence of shareholder security. In a wide sample of European firms, Christiansen, Lin, Pereira, Topalova, and Turk (2016) found a positive correlation between gender diversity and firm results. Using data from 47 countries, Terjesen, Aguilera, and Lorenz (2015) claimed that women's representation and company performance have a strong and optimistic relationship. Zahoor (2016) has asserted a positive relationship between gender diversity and firm results. In line with the theory of agencies, this study also assumes that board women control the organizational operations effectively.

H4: Gender diversity is positively associated with SOEs' financial performance

**Independence of Committee and SOE’s Performance**

For a variety of reasons, firms are setting up committees. Some committees are created, for example, to assess and reward top management, such as the compensation committee. Others exist to advise the CEO. Another group of committees ensures the company follows legislation and other external factors like environmental and audit committees (Hayes, Mehran, & Schaefer, 2004). The board members are members of the various committees. Assessment of the different aspects of committees is beneficial. New Zealand's government suggests that companies have audit and remuneration committees. Fauzi and Locke (2012) found a strong and important relationship with firm performance between the board committees. They say that board committees might be in existence to improve firm efficiency. Group committees are seen as a significant tool for reducing the costs of agencies and thereby enhancing firm efficiency. With adequate literature on hand, this study analyzes the relationship between committee independence, regulation and
monitoring, political control, and performance of Pakistani SOEs by developing the hypothesis that follows:

H5: Independent of the committee is positively associated with SOE’s financial performance

**Audit Committee Meeting and SOE’s Performance**

Chen and Zhou (2007) explain that meetings of audit boards hand out as an significant tool to promote CG in companies. It reduces financial fraud if the audit meetings happens regularly and fulfills the obligations as necessary (Stewart & Munro, 2007). It has been observed that the frequency of audit committee meetings positively influences the performance of companies (Azam, Hoque, & Yeasmin, 2010). Moreover, Ojeka, Iyoha, and Obigbemi (2014) argue that audit committee meetings show promising signs about firm performance. Meetings of the audit committee play a significant role to review the reports of the SOEs. The audit committee should meet periodically with external and internal auditors. This helps to review the firm’s internal controls and financial statements.

Ojeka et al. (2014) found that the audit committee meeting is the most important indicator of firm performance. Prior literature is not sufficient to draw any conclusions, particularly in Pakistan, so it is formulated in line with Based on the resource dependency and agency theory this study determines the bond between audit committee meetings and performance monitoring in Pakistani SOEs by building the following hypotheses

H6: Audit committee meetings are positively associated with SOEs’ financial performance

**Moderating Role of Government Intervention between CG and SOE’s Performance**

Good CG includes supervision, monitoring, efficiency, and control of the corporation's behavior (Daiser et al., 2017; Dony, Joseph, & James, 2019; K. Khan, Nemati, & Iftikhar, 2011). Meanwhile, in the orthodox view, CG’s primary goal is to ensure that investors can get a return on their money. Good CG is very critical for corporate performance (Raza, Shah, & Arif, 2021). Performance is a subjective measure of how well a company can control assets from its primary business model. In addition to this, studies have shown inconsistent results. Therefore, there is a strong need to study the role of GI between CG and firm performance.

The research area of GI is quiet limited (Su, Xiao, & Yu, 2019; Yu & Main, 2010). The researchers began their work in pioneering studies of GI. Government can intervene and take different type of interference, but the interference typically takes in the form of trade protection and financial aid (Kuzman, Talavera, & Bellos, 2018; Nem Singh & Chen, 2018; Tihanyi et al., 2019b; Yilmaz, 2019). Companies are searching for this trend, and
most initiatives would charge cost to the government. The response of firms differs when the intervention of the government is unwanted. Some firms attempt to actively control the behavior, while others view interference as an actuality of life over which their control is limited (Poynter, 1982).

Many research studies on CG have evident that SOEs work incompetently and inadequately due to bribery and dishonesty. Though, there is no logical evidence that SOEs have turned into a burden on the economy. In addition, there is a biasness in the selection of analytical materials related to SOE's that are protected by sick performance of state enterprises. Several countries have made performance agreements with the BOD executives and the SOEs, including financial targets. Their goals are defined by the specific bodies and organizations or government policy. When preparing the policy, the state must closely look the economy's output, return on capital, profitability. These things apart, the political goal of state ownership must be considered too (Apriliyanti & Kristiansen, 2019). State-owned companies in Pakistan, for example, have two distinct responsibilities concerning the public sector and commercial sector liabilities. These are also projected to establish a clear distinction in these two objectives according to World Bank, 2006.

A good number of the evidence gained in studies tells that political pressure influences SOE's performance (Su et al., 2019; Tihanyi et al., 2019a; Zhang, O'Kane, & Chen, 2020). Based on the discussion, the following hypotheses are proposed.
H7a: Government intervention plays moderating role between independent directors and SOE’s financial performance
H7b: Government intervention plays moderating role between management board size and SOE’s financial performance
H7c: Government intervention plays moderating role between management board meetings and SOE’s financial performance
H7d: Government intervention plays moderating role between gender diversity and SOE’s financial performance
H7e: Government intervention plays moderating role between independence of the committee and SOE’s financial performance
H7f: Government intervention plays moderating role between audit committee meetings and SOE’s financial performance

Figure 1: Conceptual Framework

Research Methodology

Design

The target population for this study is management-level employees of state-owned enterprises. The data was collected from the 202 SOE’s of Pakistan. Although a letter was written to the Section Officer of all 204 SOE, no response was received from the Officials of 02 SOEs of Pakistan. Hence non-probability, purposive sampling technique has been adopted as a sample selection technique. A total of 202 questionnaires were distributed
among the SOE’s of Pakistan. Out of the Two hundred two questionnaires were distributed, 185 were returned successfully. With 185 valid replies of the questionnaire for the analysis, the response rate was recorded at 91.5%. According to (Joseph F Hair Jr, Black, Babin, Anderson, & Tatham, 2010) instructions, a 50% response rate is satisfactory. The present research study has a response rate of 76.6% which is acceptable to continue the analysis.

**Measures**

A questionnaire was prepared to test the proposed model using the measures suggested in the literature. The five-point Likert-type scale is used to test the items that range from 1(Strongly Disagree) to 5 (Strongly Agree). The scales items measuring the independent director, independence of committee, audit committee meeting, and GI were adapted from Nam and Nam (2004), management board size and management board meetings scale from S. N. K. Khan and Ali (2017), gender diversity scale from Honghui (2017). Similarly, the scale items of financial performance were adapted from Henri (2006).

**Data Analysis**

Statistical Package for the social sciences (SPSS) is used for the data analysis and testing of hypotheses and also for the analysis of the moment (García-Ramos & Díaz, 2020). Initially, out-of-range values were detected (i.e., Abrennt Values). Only one value was found that was out of range or abrennt value and deleted from the data set. After the initial screening and deleting the abrennt value the sample size that was used for analysis purpose was 180. Before checking the validity and reliability of the proposed model, we have employed the Harmas’s Single-factor test to ensure the Common Method Variance (CMV) issue (Podsakoff & Organ, 1986). By using the principal factor analysis, we found the CMV is not a problem as the results witnessed that no general factor was evident in the rotation factor structure.

**Table 1. Correlation Matrix**

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACM</td>
<td>0.806</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ID</td>
<td>-0.257**</td>
<td>0.758</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MBM</td>
<td>-0.245**</td>
<td>0.550**</td>
<td>0.801</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MBS</td>
<td>-0.038</td>
<td>-0.116</td>
<td>-0.191*</td>
<td>0.779</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IOC</td>
<td>0.118</td>
<td>-0.555**</td>
<td>-0.400**</td>
<td>0.081</td>
<td>0.754</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GD</td>
<td>0.247**</td>
<td>-0.692**</td>
<td>-0.798**</td>
<td>0.125</td>
<td>0.442**</td>
<td>0.792</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Measurement Model

In the assessment of the measurement model, the reliability and validity of measurement scales were assessed. Hair, Sarstedt, Ringle, and Mena (2012); Kline (2015) suggested that in assessing the measurement model, research needs to define the validity and reliability of the scale such as discriminant validity, convergent validity, and reliability. Individual items' reliability can be assessed through the outer loadings of each measurement item of each construct (Joe F Hair Jr, Howard, & Nitzl, 2020; Joe F Hair Jr, Matthews, Matthews, & Sarstedt, 2017; Sekaran & Bougie, 2019). Since every constructs in present research are reflective so the reliability of the each items we have taken for factor loadings that were above to 0.50. (Henseler et al., 2014).

Composite reliability (CR) scores were inspected to establish internal reliability. The CR scores were up to 0.70 or above for entire latent variables in present study (Bagozzi & Yi, 1988). Average Variance Extracted (AVE) scores were considered to examine the convergent validity. In Table 2 the scores of AVE for all the latent variables are up to 0.50 (Chin, 1998). Hence, we concluded that the internal consistency reliability, indicator reliability and convergent validity have been demonstrated in this study.

Table 2. Loadings, Composite Reliability and Average Variance Extracted

<table>
<thead>
<tr>
<th>Variables</th>
<th>Dimensions</th>
<th>Measurement Item</th>
<th>Loadings</th>
<th>Composite Reliability (CR)</th>
<th>Average Variance Extracted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independence of Committee (IOC)</td>
<td></td>
<td>IOC1</td>
<td>0.881</td>
<td>0.889</td>
<td>0.729</td>
</tr>
<tr>
<td></td>
<td></td>
<td>IOC2</td>
<td>0.832</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>IOC3</td>
<td>0.847</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gender Diversity (Elfgren Persson) (FP)</td>
<td></td>
<td>GD3</td>
<td>0.723</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>GD4</td>
<td>0.806</td>
<td>0.835</td>
<td>0.628</td>
</tr>
<tr>
<td></td>
<td></td>
<td>GD6</td>
<td>0.845</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>FP1</td>
<td>0.722</td>
<td>0.863</td>
<td>0.559</td>
</tr>
</tbody>
</table>
Finally, the empirical evidence was assessed for discriminant validity. Fornell and Larcker (1981) criterion was employed for this reason. It is reported in Table 2 that the square root of AVE for every latent variable is greater than the correlation with any of the other latent variables in this model. Hence, we have established the discriminant validity in the study. In addition to that heterotrait-monotrait ration of correlation (HTMT) Method is used to evaluate discriminant validity (Gold, Malhotra, & Segars, 2001; Kline, 2015) the results show that all the values for HTMT are lower than 0.85. So, in present study discriminant validity demonstrated as per HTMT rule and presented in Table 3

Table 3. HTMT Ratio

<table>
<thead>
<tr>
<th></th>
<th>ACM</th>
<th>FP</th>
<th>GD</th>
<th>GI</th>
<th>ID</th>
<th>IOC</th>
<th>MBM</th>
<th>MBS</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACM</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FP</td>
<td>0.33</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GD</td>
<td>0.36</td>
<td>0.81</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GI</td>
<td>0.32</td>
<td>0.69</td>
<td>0.66</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: The Author
Structural Model

Measurement model assessment ensures that the data is appropriate for further analysis. After acceptable outcomes of measurement model, a structural model was measured to examine the proposed hypotheses. In testing the proposed model with SEM-PLS, a standard bootstrapping technique with 5000 bootstrap samples was run to determine the significance of the path coefficient using 180 cases. The structural model was run using guidelines provided by eminent scholars such as (Joe F Hair Jr et al., 2020; Henseler et al., 2014). The details of results with a coefficient of determination, standard deviation, t-value, and significance are given in Table 4.

Referring to Table 4 we found that an independent director is not positively associated with financial performance of SOE (β=-0.154; p=0.182). Hence our H1 is not supported. Similarly, the results show that management board size has an insignificant impact on SOEs' financial performance (β=-0.010; p=0.698). Hence our H2 is not supported. Further the results show that management board meeting has insignificant impact on SOEs financial performance (β=-0.106; p=0.512). Hence our H3 is not supported. The results also show that gender diversity significantly impacts SOEs' financial performance (β=0.181; p=0.064). Hence our H4 is supported. Moreover, results show that the independence of the committee has an insignificant impact on SOEs financial performance (β=0.091; p=0.341). Hence our H5 is not supported. In addition, these results demonstrate that audit committee meeting has insignificant impact on SOEs financial performance (β=-0.022; p=0.514). Hence our H6 is not supported.

The analysis of this study also suggests that GI has no moderating effect on the relationship between independent directors and SOEs financial performance (β=0.034; p=0.729). Hence, H7a was not supported. Further, results show that GI has no moderating effect on the relationship between management board size and SOEs financial performance (β=0.078; p=0.217) and not supporting H7b. Similarly, GI has no moderating effect on the relationship between a management board meeting and SOEs financial performance (β=-0.082; p=0.589). Hence, H7c was not supported. Moreover, results show that GI has no moderating effect on the relationship between gender diversity and SOEs financial performance (β=0.088; p=0.588) and not supporting H7d. The analysis also demonstrates that GI has no moderating effect on the relationship between independent of the committee and SOEs financial performance (β=0.170; p=0.634). Hence, H7e was not supported. Finally, results show that GI has no moderating effect on the relationship between audit committee meetings and SOEs financial performance (β=-0.123; p=0.401).
Hence, H7f was not supported.

We, next assessed the variance described in the endogenous latent variable. That's why, firstly report the R2- values of the model. The empirical result discovered that research model described 52.5% of the total variance in SOEs' financial performance. Though the suitable R2 value depends on study framework; as described by Falk and Miller (1992) that a minimum variance that is acceptable in social sciences is 10%. Furthermore, variance attained in current research is reflected satisfactory (Joe F Hair Jr et al., 2017). Next, observed the effect size of the model. Chin (1998) described the effect size as the increase in the value of R2-Square of the latent variable(s) to which the path is connected; relative to the proportion of unexplained variance of the latent variable(s). The effect calculation is based on a formula provided hereunder (Cohen, 2013; Selya, Rose, Dierker, Hedeker, & Mermelstein, 2012)

Table 4. Structural Model Assessment

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Relationship</th>
<th>β</th>
<th>T</th>
<th>p</th>
<th>Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1</td>
<td>Independent directors are positively associated with SOEs financial performance.</td>
<td>-</td>
<td>0.154</td>
<td>1.336</td>
<td>0.182</td>
</tr>
<tr>
<td>H2</td>
<td>Management board size is positively associated with SOEs financial performance.</td>
<td>-</td>
<td>0.010</td>
<td>0.388</td>
<td>0.698</td>
</tr>
<tr>
<td>H3</td>
<td>Management board meetings are positively associated with SOEs financial performance.</td>
<td>-</td>
<td>0.106</td>
<td>0.656</td>
<td>0.512</td>
</tr>
<tr>
<td>H4</td>
<td>Gender diversity is positively associated with SOEs financial performance.</td>
<td>0.181</td>
<td>1.857</td>
<td>0.064</td>
<td>Supported</td>
</tr>
<tr>
<td>H5</td>
<td>Independent of committee is positively associated with SOEs financial performance.</td>
<td>0.091</td>
<td>0.952</td>
<td>0.341</td>
<td>Not Supported</td>
</tr>
<tr>
<td>H6</td>
<td>Audit committee meetings are positively associated with SOEs financial performance.</td>
<td>-</td>
<td>0.022</td>
<td>0.653</td>
<td>0.514</td>
</tr>
<tr>
<td>H7a</td>
<td>Government intervention is playing moderating role between independent directors</td>
<td>0.034</td>
<td>0.347</td>
<td>0.729</td>
<td>Not Supported</td>
</tr>
</tbody>
</table>

469 http://www.webology.org
and SOEs financial performance.

**H7b**  
Government intervention is playing moderating role between management board size and SOEs financial performance.

-  
$$0.078 \quad 1.236 \quad 0.217$$  
Not Supported

**H7c**  
Government intervention is playing moderating role between management board meetings and SOEs financial performance.

-  
$$0.082 \quad 0.540 \quad 0.589$$  
Not Supported

**H7d**  
Government intervention is playing moderating role between gender diversity and SOEs financial performance.

-  
$$0.088 \quad 0.542 \quad 0.588$$  
Not Supported

**H7e**  
Government intervention is playing moderating role between independent of committee and SOEs financial performance.

-  
$$0.170 \quad 0.476 \quad 0.634$$  
Not Supported

**H7f**  
Government intervention is playing moderating role between audit committee meetings and SOEs financial performance.

-  
$$0.123 \quad 0.841 \quad 0.401$$  
Not Supported

Source: The Author.

Finally, the predictive capability of the model through the blindfolding technique. As per examining the model, the outcomes were also suitable that recommend Q2 score of the model is above zero as suggested by (Henseler, Ringle, & Sarstedt, 2012).

### Table 5. Predictive Relevance

<table>
<thead>
<tr>
<th>Effect Size</th>
<th>Rating</th>
<th>q2</th>
<th>Effect Size</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial</td>
<td></td>
<td></td>
<td>Financial</td>
<td></td>
</tr>
</tbody>
</table>

470  
http://www.webology.org
In recent centuries, research regarding financial performance and CG has received abundant scholars’ consideration. Conversely, in research the combining relation between these two with SOEs performance is also very rare. Founding upon this gap, current research aimed to analyze the effect of CG on financial performance with moderating role of GI. At first, the study tested the relationship of independent directors with SOE’s financial performance. The outcomes of the research did not support the H1. The result of this study matched with the results of Kumar and Singh (2013) that the positive effect of independent directors on the firm's financial performance exists but insignificantly. Furthermore, Bhagat and Bolton (2008) investigated and revealed the negative relation between the board's independence and the firm's financial performance. According to their research, the inside director has more expertise and more inside knowledge about the corporation, so their effect is positive (Bhagat & Black, 2001).

Further, the study tested the management board size is with SOE's financial performance. The results of the study did not support the H2. The results are consistent with (Guest, 2009; Nakano & Nguyen, 2012). His findings backing the argument that the complications of decision-making and poor communication weaken the efficacy of large size of the board. Similarly, the impact of management board meetings is tested with SOE’s financial performance. The effects of the research study did not support the H3. Current
research verify the results of a great deal of preceding research (Cho & Rui, 2009). According to these previous studies, no significant relationship exists between the management board meetings and the SOE’s financial performance. These results conclude that SOEs in Pakistan cannot enhance the performance of the entities because executives are coming from the political parties or appointed the bureaucrats by the government adversely influence the board decisions.

Moreover, the relationship of gender diversity is tested with SOE's financial performance. The results of the study support the H4. In the sample firms of the present study, female directors were in minorities and had low leverage in process of decision-making and most cases. Specifically, in the case of Pakistani firms, only a few female directors are set on the board, and all of these female directors are from families of the owners (Bravo & Reguera-Alvarado, 2019; Fernandes, Bornia, & Nakamura, 2018). The relationship of independence of the committee is analyzed with SOE's financial performance. The results of the study did not support the H5. This research reveals that the relationship between audit meetings and firm financial performance is not significant but affects positively. This finding agrees with (Hsu & Petchsakulwong, 2010) findings which showed the same relationship among these two variables. Empirically, it is stated that the audit meetings are conducted to reflect the organization's performance because the frequency of audit meetings will help resolve the organizational issues.

Further, this study tested the relationship of the audit committee meeting is with SOE's financial performance. The results of the study did not support the H6. These findings are not aligned with the agency theory, which argues that frequent audit committee meetings may lead the organization to gain superior performance. A possible justification is the quality of the meeting, which matters most, and that it is not necessary that increase in firm’s performance is due to frequency of meetings (Al-Matari, Al-Swidi, & Fadzil, 2014; Rebeiz & Salameh, 2006). Finally, the result indicated that GI does not significantly enhance the relationship between CG, and SOE's financial performance. The non-significant result may be because the management of SOEs did not like any interference of government. Nevertheless, due to speedily the weakening of governance, the appointment of political intellectuals, and fiscal viability, many SOEs have been unsuccessful in achieving these actions and rather keep posing the financial and economic development challenge.

The moderation influence regarding the GI in the relation among board management size and firm performance was also irrelevant. According to Apriliyanti and Kristiansen (2019) the results also supports that both politicians and officials who are on the board are also not accomplishing the firms' interest. Following the theory of resource dependency, the appointment of the board members was also imagined such as an instrument to cope with the environment. However, the enormous management board may provide benefit to a business from the perspective of resource dependency (Aras & Crowther, 2009; Mintzberg, 1983). Moreover, the growing number of the board directors can also decline
the capability of the board regarding the control, which in turn instigates agency problems in emergent from the parting in between management and control (Klein, 2002; Yawson, 2006; Yermack, 1996).

The influence of the board size on the performance might be predictable to vary not just according to the firm explicit features but it may also by nation meanwhile the role and board functions may also vary by a nation too (Guest, 2009). In adding to this, the moderation influence regarding the GI in the relation among independence committees and firm performance was also irrelevant. Thus, it can be supposed that the government interference does not impact the relation among the independence committees and SOE’s performance.

**Theoretical and Practical Implications**

This area of research empirically examines relationship of CG constructs to SOE’s financial with moderating role of GI. Based on the analysis results, the current research has provided numerous significant contributions to theory and practice in social science. This study contributes to agency theory by examining the impact of CG constructs (independent director, gender diversity, independence of committee, audit committee meeting, management board size, management board meeting) on SOE's financial performance.

Further, previous studies showed inconsistent empirical evidence between the relationships of, governance constructs, and SOE's financial performance. However, this study shows that most CG constructs significantly influence SOE’S financial performance. The previous model assuming governance components are associated with SOE's performance has led to conflicting results concerning contribution to knowledge. Based on the resource dependency theory, this study has revised the model by introducing the moderating role of GI between the constructs. It has provided a new conceptual framework and comprehensive empirical evidence that fills the gap between governance, GI, and SOE’S financial performance, thus contributing to the literature on agency theory, and resource dependency theory. It is further stated that adoption the dimensions of CG is important to conduct the future research in the Asian countries. This research should be helpful for practitioners of SOE’s and also promote the rules and regulation of CG and government interference in Pakistan. The results of this study will provide the knowledge and guidance to public and private investors regarding the behavior of SOE’s and benefits to invest in this area.

**Conclusion**

This study has inspected the influencing factors of CG on financial performance of SOE’s with moderating role of GI. The results shows that there is positive association among gender diversity and SOEs financial performance. Contrary to this, other dimensions of CG for instance audit committee meetings, independent directors, management board
meetings, and management board size have no significant association with financial performance of SOE. In addition, on the basis of analysis it concludes that GI does not moderating the relationship between CG, and SOE’s financial performance. The results of this research have several similarities with research work that exist and have differences with other research studies on CG, GIs, and performance of the firms. Differences possibly will happen because of differences in government policies, culture, or differences in the board system.

Limitations and Recommendations

This research study provides valuable results that significantly contributes to practical, theoretical, and methodological aspects, as other research studies have some limitations that future researchers can address. Firstly, the current research was conducted to examine the impact of governance constructs (independent director, gender diversity, independence of committee, audit committee meeting, management board size, management board meeting) on SOE's financial performance with moderating role of GIs. The findings are only confined to these aspects. Future research is suggested to look into the relationships and search for other influential factors that may have existed between the constructs.

Secondly, the current research model used only GI as a moderating variable to measure the direct impact of CG on SOE's financial performance. Additionally research studies can use other moderating variables that can be possibly moderate or mediating variables that mediate the association between CG constructs and SOE's performance. Therefore, it is acclaimed to reexamine the modified conceptual model in addition to the new variables contributing to firm performance, such as firm size and tax and incentive system. Finally, the findings are based on quantitative methods. Few of the researches are initiated by using the mixed-methodology. To gain more knowledge it is recommended to conduct the research by using mixed method approach in future research.

Declaration of Conflicting Interests

The authors declared no potential conflicts of interest with respect to the research, authorship and/or publication of this article.

Funding

The author received no financial support for the research, authorship and/or publication of this article.
References


http://www.webology.org


