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Accepted for publication in Journal of Accounting in Emerging Economies.

Research Repository link: <https://repository.essex.ac.uk/37053/>

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Journal:	<i>Journal of Accounting in Emerging Economies</i>
Manuscript ID	JAEE-11-2021-0362.R4
Manuscript Type:	Research Paper
Keywords:	Corporate Governane Regulations, Regulatory Space, Strategic Responses, Developing Countries, Family Businesses

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3 **Corporate Governance Regulation in regulatory space of a developing country: Actors,**
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5 **strategies, and outcomes**
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11
12 **Abstract**
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15 **Purpose:** This study seeks to deepen our understanding of the political process underlying the
16 establishment and evolution of CG regulations in a developing country.
17

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19 **Design/methodology/approach:** Drawing on regulatory space concept (Hancher and Moran
20 1989) and Oliver's (1991) typology of strategic responses, we identify which actor participated
21 in and benefited from the establishment of a new transnational CG regulation in Pakistan. Data
22 was collected through interviews and from the published secondary sources.
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28
29 **Findings:** Our findings highlighted regulations are being influenced and shaped up by the
30 political process of negotiation, bargaining, manipulation, and domination between powerful
31 and resourceful actors in a given regulatory space. National regulators and regulatees can be
32 indeed fervent opponents to the transnational regulations when it comes to protecting their well
33 rooted national interests.
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40 **Originality/value:** This study contributes to the accounting literature by illustrating political
41 processes through which internationally recognised CG practices are resisted, negotiated, and
42 implemented in the developing countries. The regulator must pay attention that the outcome of
43 the regulatory change process is the result of carefully crafted and conscious strategies of actors
44 in the regulatory space.
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54 **Keywords:** Corporate governance regulation, regulatory space, strategic responses,
55 developing countries, family businesses.
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1. Introduction

Scholars examining the diffusion of CG regulations documented influential role of international organisations in shaping CG codes in developing countries (Caramanis 2002, Siddiqui 2010). Kapstein (1994) says in the case of economically weaker nations, international government and non-governmental organizations have greater ability to influence regulation. These studies stressed legitimacy and financial dependence as the main reasons why CG codes in developing countries are converging to the Anglo-American model (Areneke, Yusuf et al. 2019). However, the role and influence of national regulatory arrangements and actors in developing countries is not as low as is often inferred from prior studies. We argue that the impact of local actors on the national system of regulation in developing countries has not received attention, as such it warrants and calls for an examination of national regulatory spaces, local powerful and resource actors to enhance our understanding about how global accounting standards are being translated into practice.

Local regulators and regulatees may pursue multiple strategies to influence regulatory processes (Alon, Mennicken et al. 2019). To better understand regulatory process, it is important to identify who the actors are, what are their interests, and what roles these actors can play in the regulatory change dynamics. In response to the calls for “an enhanced focus on the influence of national political and social contexts on the development and interpretation of accounting regulations” (Canning and O’Dwyer 2013, p. 169) and (Camfferman and Zeff 2018), our paper is analysing how multiple actors influence and shape CG regulation in a developing country by using a case of Pakistan.

This study employs the Regulatory Space (RS) concept, which focuses attention on how national politico-legal, economic and historical settings, key actors, organizational structure, and distribution of power influences and shapes regulations (Hancher and Moran 1989,

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3 MacDonal and Richardson 2004, Canning and O'Dwyer 2013, Hartmann, Marton et al. 2020).
4
5 Understanding these conditions is necessary in order to unbox the strategies employed by key
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7 actors in the regulatory process particularly in emerging economies. Following Shapiro and
8
9 Matson (2008) and Canning and O'Dwyer (2013) this study draws from Oliver's (1991)
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11 typology of strategic responses to understand actors interactions in the regulatory arena. The
12
13 passivity of local regulator and regulatees in the regulatory development process should not be
14
15 automatically presumed. Understanding how CG regulations are diffused in a local context can
16
17 unveil problems and game playing to smooth future regulatory efforts (see, for example,
18
19 Malsch and Gendron 2011, Canning and O'Dwyer 2013, Detzen 2018).
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24
25 Existing research on RS dynamics has focussed on the context of developed economies such
26
27 as Ireland (Canning and O'Dwyer 2013) Canada (Malsch and Gendron 2011) France (Hazgui
28
29 2015, Hazgui and Gendron 2015) or Sweden (Hartmann, Marton et al. 2020). None of the
30
31 above studies focused on understanding the regulatory change dynamics in the context of
32
33 developing countries like Pakistan. Pakistan provides a unique socio-economic, political and
34
35 cultural context which is characterised by: financial dependence on the donor agencies, foreign
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37 influence, political instability, strong ties between business interest groups and political parties,
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39 ownership concentration, weak institutional structures and lack of enforcement capabilities
40
41 (Papanek 1967, Alavi 1983, Jalal 1995). These structural and cultural conditions, which are
42
43 different from developed countries, warrant separate investigation of regulation dynamics.
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49 This paper used interviews and documentary evidence in highlighting the role that national
50
51 institutional context and multiple actors play in the diffusion of CG codes in the regulatory
52
53 space of Pakistan.
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57 The present study makes following contributions. First, respond to the call for country by
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59 country relationship between local constituents and global standard setter (Camfferman and
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Zeff 2018) by highlighting that regulations are being influenced and shaped up by the political process of negotiation, bargaining, manipulation and domination between powerful and resourceful actors in a given regulatory space. Second, it identified that if regulatory reforms were to change the status quo or have adverse effects on organisational routines, then local actors may lobby to oppose reforms. Finally, the findings have practical and policy implications by illustrating that the outcome of the regulatory change process is the result of carefully crafted and conscious strategies of actors in the regulatory space.

The remainder of this paper is organised as follows. The next section explains the concept of regulatory space and the strategic responses that actors may adopt in the regulatory space to provide a framework for understanding the findings. This is then followed by a discussion of the research methodology employed in this study. The findings section discusses actor dynamics, social relationships and bargaining in the regulatory change process by drawing on the theoretical framework. The final section discusses the findings and draws some tentative conclusions.

2. Regulatory space and strategic responses in the regulatory arena

The concept of regulatory space enables the understanding of actor dynamics and the processes through which actors gain, maintain and lose their dominant position within a regulatory arena (Hancher and Moran 1989, MacDonald and Richardson 2004, Canning and O'Dwyer 2013). As this study examines the ways in which key actors promote various regulatory positions (Young 1994) and employ shifting strategies throughout the development and implementation of CG codes, Oliver's (1991) typology of strategic responses are used in conjunction with the regulatory space concept (Shapiro and Matson 2008, Canning and O'Dwyer 2013).

Regulatory Space

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2
3 The regulatory space is an abstract concept which comprises of organisations and people
4 interacting on issues of public interest in a physical or virtual setting (Hancher and Moran
5 1989). Within this space regulatory agendas are being initiated, developed and implemented
6 (Jonnergård and Larsson 2007). The concept of regulatory space enables the understanding of
7 actor dynamics and the processes through which actors gain, maintain and lose their dominant
8 position within a regulatory arena (Hancher and Moran 1989, MacDonald and Richardson
9 2004, Hartmann, Marton et al. 2020). When initiating a new regulation or changing existing
10 course of actions, the regulator must base its activities on actor's resources, powers, and
11 positions in regulatory space. Regulations varies in term of their understanding and
12 enforcement. Enforcement environment may shape regulations and then how regulations in
13 turn influence the environment (Berglöf and Claessens 2006). Actors in regulatory setting may
14 hold different powers, resources, and positions those may effect regulatory agenda and the
15 outcomes, ranging from regulatees resistance in implementing IFRS regulations (Hartmann,
16 Marton et al. 2020), to regulator and academics overcoming resistance from auditors (Detzen
17 2018), actors effort in developing co-regulations (Malsch and Gendron 2011, Hazgui and
18 Gendron 2015) or symbolic equilibrium solution to avoid criticism and help them to achieve
19 legitimacy (Munzer 2019).

20
21
22 In accounting literature, the concept of regulatory space has been used to understand
23 negotiation between regulator and regulated, meaning of regulations, the legitimacy of new
24 regulatory authorities and their efforts to defend their role and positions (Malsch and Gendron
25 2013, Gatti and Poli 2018, Hartmann, Marton et al. 2020). Artiach et al. (2016) documented
26 challenges new regulator Australian Charities and Not-for-profit Commission (ACNC) faced
27 in establishing its legitimacy in a congested and fragmented regulatory space. The authors
28 presented those regulations are context-bound political process in which new regulators need
29 to create their own identity. New regulators demonstrate and gain legitimacy through

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3 addressing constituent's needs and through bargaining with other regulators in the regulatory
4 space. Malsch and Gendron (2011) illustrated how an independent oversight regulatory body
5
6 faced resistance from the audit profession in Canada. The authors reported that ultimately the
7
8 new regulator became subordinate to the regulatees. However, Canning and O'Dwyer (2013)
9
10 showed that an independent oversight body in Ireland somehow manage to overcome the
11
12 resistance from the profession. Hazgui and Gendron (2015) extended this debate and illustrated
13
14 that new regulators need to collaborate with the regulatees.
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19 The conception of regulatory space has been especially used in understanding regulation
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21 development processes in developed countries. Our knowledge about how regulatory changes
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23 introduced, resisted, and negotiated in other cultural contexts is rudimentary, as prior studies
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25 have not provided adequate understanding of the regulatory space of developing economies
26
27 such as Pakistan. This paper attempts to redress this lacuna in the literature.
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31 Prior studies focused on outcomes of regulatory efforts (Siddiqui 2010, Mbelwa, Adhikari et
32
33 al. 2019) in developing countries do not provide an understanding of the political process or
34
35 means through which regulations came into being. The regulatory space consists of actors who
36
37 by virtue of their resources and dominant position influence the outcome of regulatory
38
39 processes. Due to the interdependencies and bargaining between the influential actors who
40
41 compete for resources, positions, political power and legitimacy, the process of developing and
42
43 implementing regulation is highly political (DiMaggio and Powell 1983, Dillard, Rigsby et al.
44
45 2004). The authority of local regulators depends on the power conferred by government, and
46
47 the acceptance of the legitimate authority over the formation of regulatory agenda (Young
48
49 1994). The regulations that national regulators implement depend on the nature of the problem
50
51 they wish to address, resources they possess, societal expectations regarding their behaviour,
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53 and pressures exerted by transnational actors and local actors (Shapiro and Matson 2008,
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Canning and O'Dwyer 2013). In summary, this study argues that analysis of regulatory space is important to gain insight about key actors, their resources, and power relationships. law.

Strategic responses to institutional pressures in a regulatory space

Power and political games are taking a centre-stage in the regulatory processes (Shapiro and Matson 2008, Hazgui 2015, Maran, Bracci et al. 2016). The process of implementing regulations is 'constitutive' (Shearing 1993); it is a process of negotiating the practical meaning of legislation and the legitimate role of the regulator among those who will be affected. As Hope and Gray (1982, p 531) suggest, "an understanding of how, when and by whom power is being exercised is widely recognised as a necessary pre-requisite of any rigorous analysis of the political process". Power relations influence what is and what is not on the regulatory agenda (Hancher and Moran, 1989).

Following Canning and O'Dwyer (2013) and Shapiro and Matson (2008), this study adopts Oliver's (1991) typology of strategic responses to understand actor dynamics, shifting strategies and resources enrolled in the process of developing and implementing CG codes. Mobilisation of the concept of regulatory space in conjunction with Oliver's (1991) framework is used to analyse the interactive process of regulations development and implementation, and the strategic responses of actors operating in the regulatory space. Oliver's (1991) typology of strategic responses to institutional processes has been adopted because it incorporates institutional context and helps predict why and when an actor will employ certain strategies to influence regulation (Wijethilake, Munir et al. 2017, Vejvar, Lai et al. 2018). Oliver (1991) suggests that actors may adopt a broad range of strategic responses such as 'acquiesce', 'compromise', 'avoid', 'defy' and 'manipulate' to protect their vested interests when faced with a regulatory change (Table 1).

Table 1: Strategic Responses to institutional processes

Strategies	Tactics	Meanings
Acquiesce	Habit	Following socially accepted norms and values
	Imitate	Mimicking or copying successful institutional models
	Comply	Obeying rules and accepting norms
Compromise	Balance	Accommodating multiple expectations of multiple constituents
	Pacify	Appeasing institutional elements
	Bargain	Negotiating with institutional stakeholders
Avoid	Conceal	Disguising non-conformity
	Buffer	Loosening institutional attachments
	Escape	Fleeing by changing goals, activities, or domain
Defy	Dismiss	Ignoring explicit norms and values
	Challenge	Contesting rules and requirements
	Attack	Assaulting the sources of institutional pressure
Manipulate	Co-opt	Persuading influential constituents
	Influence	Shaping values and criteria
	Control	Dominating institutional constituents and processes

Source: Adapted from Oliver (1991, p.151).

Strategic responses of actors in the regulatory space are determined by: the resources they possess (Scott 2001), the power they can derive from the resources (Sikka 2001), their role and position, and the interaction among them (Hancher and Moran 1989, Shapiro and Matson 2008). Resources may be used to campaign, form coalitions, influence public opinions, and pressurise regulators to influence regulation. For example, Shapiro and Matson (2008) reported that powerful organisations use their resources to defy and successfully defeat regulations in the period 1976-2001 which would have required all public companies to assess and publicly report on their internal controls. Although subsequent accounting scandals challenged the adequacy of voluntary reporting, the regulatees significantly weakened the new internal control requirements mandated by Sarbanes–Oxley Act of 2002 through their interactions with the US Securities Exchange Commission. Actors willingness and ability to conform with regulation are influenced by their scepticism of the legitimacy of the regulation; political self-interests; organisational determination to retain control over objectives, processes and outputs; resources and capacity to comply; conflicting pressures; and lack of awareness or recognition of the need

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3 for change. Actors enrolled different or multiple strategies in an effort to occupy a dominant
4 position in the regulatory space (Meyer and Rowan 1977, DiMaggio and Powell 1983).

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7 By considering both the regulatory space and strategic responses of actors, this study avoids
8 the almost exclusive emphasis by neo-institutional researchers on the hierarchical and passive
9 nature of regulation development and implementation (Dillard, Rigsby et al. 2004). Oliver's
10 (1991) framework may be criticised for its implicit "focus on the strategic responses of the
11 targeted actor alone (e.g. regulatees)" and for assuming that the pressurising regulator would
12 stick to its own strategic position (Canning and O'Dwyer 2013, p. 174). However, our study
13 overcomes this limitation by extending Oliver's (1991) analysis to provide insights into the
14 'interactions' among several parties enrolling several strategies with several possible
15 outcomes. The concept of regulatory space and extension of Oliver's (1991) typologies of
16 potential responses to regulatory pressures is used to understand interactive and longitudinal
17 processes of regulation development and implementation in the specific empirical setting of
18 Pakistan.

19 *The regulatory space of Pakistan*

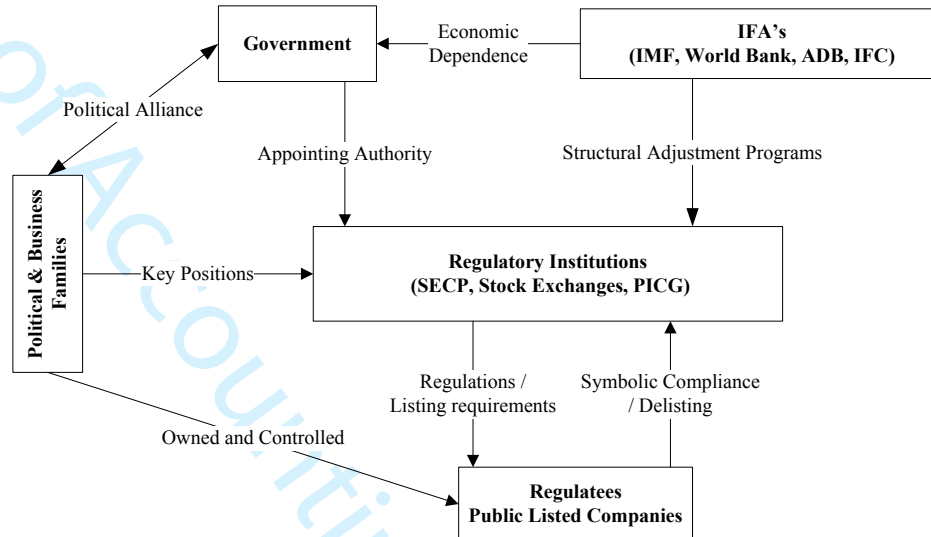
20
21
22 The RS of Pakistan consists of multiple influential national and transnational actors. Figure (1)
23 presents key actors, their strategic positions and nature of interactions in the RS of Pakistan.
24 This section will accentuate on the actors' roles, powers, and resources. Identification and
25 understanding are important to analyse the nature of strategies and resources enrolled by
26 different actors in promoting, shaping, and resisting CG regulations (MacDonald and
27 Richardson 2004).

28 **Government & Political Families**

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30
31 The Islamic Republic of Pakistan gained independence from the British Empire on 14th August
32 1947. Since its independence, the democratic development nexus is uncertain in Pakistan. In

the last sixty-five years, Pakistan has seen twenty-six governments with an average life span of approximately two years.

Figure 1: Key actors and their relationships in the regulatory space of Pakistan



The frequent changes in government followed by reversal decisions taken by new governments resulted in an environment of uncertainty and lack of predictability. Transfer of power from one government to another is always problematic in Pakistan; causing a slowdown in economic activities, increase in inflation and unemployment, and the adoption of a wait and see policy by investors (Husain 2009). Since independence, the military and two political parties – Pakistan People Party (PPP) and Pakistan Muslim League (N) – have ruled the country. The military, who have ruled for much of Pakistan's existence through the dismissal or overthrowing of civilian governments, continues to be the country's most important political force (Ashraf, Muhammad et al. 2019). In the era of military dictatorship, the military establishment itself got involved in an entrepreneurial role by acquiring large holdings in big businesses and industries by setting up trusts and foundations (Jalal 1995). Other than the military establishment, two political families, the Bhutto's and Sharif's, have dominated

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3 Pakistan politics¹. Each party is associated with a particular wealthy clan, and successive
4 governments have acted as vehicles for amassing wealth and power for the ruling families.
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7 **Economic Dependence on IFA's**

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10 The role and influence of International Financial agencies (IFAs) in developing countries has
11 been extensively studied in prior literature. These studies stressed that in most of the developing
12 economies, CG reforms were initiated mainly due to pressure from International Financial
13 Agencies (IFAs) as a prerequisite for obtaining loans (Uddin and Hopper 2003, Siddiqui 2010),
14 and are in line with Anglo-American (AA) CG model (Uddin and Hopper 2003). Like other
15 developing countries, Pakistan has been a big recipient of economic assistance from
16 international donor agencies². The economic dependence on donor agencies allowed them to
17 interfere in the regulatory arena in Pakistan in the name of Structural Adjustment Programs
18 (SAP's) (Areneke, Yusuf et al. 2019). To obtain economic aid, the government is required to
19 implement donor agencies prescribed reforms in the form of Structural Adjustment Programs
20 under the latter's supervision. For example, in the 1990's, Moen Qureshi who was a senior
21 officer at the World Bank was appointed as an interim Prime Minister to implement Structural
22 Adjustment Programs. The main covenants attached to grants and loans included agreements
23 regarding: the adoption of internationally accepted accounting practices, privatisation,
24 deregulation, introduction of General Sales Tax, and sale of state-owned enterprises. These
25 International Donor Agencies worked in coordination with each other. As in 2013, the Asian
26 Development Bank (ADB) conditioned its loan to Pakistan with loan sanctioning from IMF³.
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54 ¹ This paper is only examining the role of business families in the development and implementation of CG codes.

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56 ² Federal Bureau of Statistics, Statistics Division, Government of Pakistan

57
58 ³<http://jang.com.pk/jang/mar2013-daily/08-03-2013/u138986.htm>

Business Families:

Business families are also one of the most powerful actors in Pakistan regulatory space. The allocation of power to family businesses in the regulatory space was the product of history, culture, politics and economic forces (Papanek 1967, Husain 2009). In the era of military rule by Ayub Khan (1958-1969), twenty-two families greatly flourished. They thrived in banking, insurance, textiles, and consumer goods until they virtually gained control of the economy. The political alliance with political parties, key positions in government institutions and domination in the corporate sector enabled them to establish business empires (Rashid 1976). Table 2 show dominance and concentration of wealth in the hands of few families in Pakistan.

Table 2: Ownership concentration of 50 random companies in Pakistan (2003-07)

	Mean	Median	Minimum	Maximum	Standard deviation
% of shares held by three shareholders	52	50.7	2.5	96.8	21
% of shares held by five shareholders	62.39	64.23	3.5	99	21.17

Source: Adapted from (Attiya and Robina 2010)

The power of business families and their friends often shapes the economic and political power within Pakistan. In Pakistan, it is difficult to differentiate between political and business families (Jalal 1995). Business families formed alliances with political families to protect their common business interests. This alliance transforms the state functions into a political club. This political club protects the corrupt and enables them to accumulate wealth. In addition, this political club interferes in state affairs, and because of this continuous interference, the state becomes dysfunctional and unaccountable to the people. Mannan (1992) contends that political factionalism, derived from family politics, essentially undermines the rule of law and institutions, to maintain their loyal supporters in various positions within the institution.

Regulatory Institutions

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3 Pakistan is a former British colony and has adopted the Companies Act 1913, passed in British
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5 India. Pakistan passed its own company law in 1984 in the form of the 'Companies Ordinance
6
7 1984'. The Companies ordinance governs the corporate sector of Pakistan. The financial sector
8
9 is also regulated by the State Bank of Pakistan Act.
10

11
12 The SECP (Securities & Exchange Commission of Pakistan) was established in 1999. The SECP
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14 Act 1997 defined the structure, powers, and functions of SECP in carrying out its regulatory and
15
16 statutory responsibilities as an independent regulator. The Ministry of Finance holds the authority
17
18 to appoint the SECP's chairman and commissioners. The SECP succeeded the Corporate Law
19
20 Authority (CLA), which had been administering corporate laws in the country since 1981. The
21
22 SECP as an independent body regulates the corporate sector, capital markets and non-banking
23
24 financial institutions. The regulatory and supervisory responsibilities of SECP include regulating
25
26 the securities; stock exchanges; security markets; investment funds and schemes; mergers/takeover
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28 of companies; supervising depositories; clearing houses; and registration of brokers and sub-
29
30 brokers. The main objective of SECP is to develop a transparent and efficient regulatory framework
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32 for the protection of investors.
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38 The Pakistan Stock Exchange (PSX) was established in January 2016 after the merger of three
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40 stock exchanges of Karachi, Lahore and Islamabad. Karachi, Lahore, and Islamabad stock
41
42 exchanges were established in 1947, 1970 and 1992 respectively. The stock market
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44 capitalisation in Pakistan accounts for approximately 19.4% of GDP, compared to UK where
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46 the ratio is 115.5% (The World Bank 2015). In 2013-14 there were a total of 558 companies
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48 listed on the Karachi Stock Exchange with an average daily turnover of 236 million shares and
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50 market capitalisation of Rs 7,116.0 billion. Iqbal (2012) stated that less than one percent of the
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52 total population invests in the stock markets. She evaluated Pakistan's stock market performance
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54 and pointed out that high volatility and small size of the stock market seems to be a possible cause
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56 of the weak role of the stock market in the country's economic growth. She also posed that high
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3 trading activity in Pakistan's stock market is not driven by economic fundamentals, rather it appears
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5 to be caused by speculators and noise traders.
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9 In 2004, the Pakistan Institute of Corporate Governance (IFC, SECP et al.) was established,
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11 under section 42 of the Companies Ordinance 1984, as a not-for-profit public-private
12
13 partnership to promote good CG practices. It is a non-profit company, limited by guarantee and
14
15 without share capital. SECP, SBP, stock exchanges, banking and insurance institutions,
16
17 corporate businesses and Non-Bank Financial Institutions, and leading business educational
18
19 institutions are founding members of this institution. The main responsibilities of PICG are to
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21 provide training and education, create awareness, and publish guidelines. It also provides a
22
23 forum for discussion on corporate governance. PICG, in collaboration with relevant members,
24
25 organises conferences, seminars and roundtables from time to time to encourage debate on
26
27 important issues.
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31
32 In summary, the regulatory space of Pakistan consists of multiple influential organisations and
33
34 actors with different powers, resources, and interests. IFA's, business and political families,
35
36 government, regulatory and professional bodies are key influential actors and organisations
37
38 with different powers and resources in the regulatory space. This study examines how these
39
40 actors and organisations can use their positions and resources to influence regulatory process
41
42 of CG codes in Pakistan.
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46 **Research methods**

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50 This study analyses the regulatory arrangements principally in the realm of CG from 1995-
51
52 2014; and how and why these influential actors interact and use their power, resources, and
53
54 connection in promoting, shaping, and resisting CG regulatory framework. Questions raised in
55
56 this study are sensitive in nature and secrecy could be a major issue in data validation
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3 particularly in traditional setting of Pakistan (Uddin and Choudhury 2008). Interviews and
4
5 documentary evidence are used as data collection methods. Multiple data collection methods
6
7 enabled us to address 'why' and 'how' questions set out earlier to enhance our understanding
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9 of regulatory development (Yin 2014).
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13 Semi-structured interviews were conducted. An interview guide was used to maintain better
14
15 focus and consistency during the interviews. The range of issues raised in the interviews
16
17 covered: why and how CG codes were introduced, revised, and implemented; role and
18
19 strategies of multiple actors in shaping CG codes; how family-controlled listed companies
20
21 perceive and implemented CG codes; and implications of CG codes. It is acknowledged that in
22
23 the context of emerging economies, it might be difficult to obtain candid replies from
24
25 interviewees on politically sensitive issues. Interviews were designed to overcome this issue
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27 and make sure interviewees freely discuss and provide information. We sought their permission
28
29 to record the interviews and assured complete anonymity. Participants were requested to read
30
31 and verify transcripts and suggest changes if needed.
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36

37 The analysis of regulatory space of Pakistan identified various local and transnational actors
38
39 who have resources and power to influence regulatory arrangements in Pakistan (figure 1). In
40
41 total, forty-one interviews were conducted with key actors identified in figure 1. Data collection
42
43 process stopped when it offers no new relevant data and theoretical insight. In addition to this
44
45 time and access limitations also restricted us to conduct more interviews. More details about
46
47 the interviews conducted are provided in table 3. The interviews lasted between 50 minutes to
48
49 2 hours, with notes taken throughout. All the interviews were recorded and attended by the first
50
51 author. Interviews were transcribed as soon as possible to seek feedback and additional
52
53 commentaries during the follow-up. Based on the transcribed data, several interviewees were
54
55 contacted again via email or Skype.
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Table 3: Detail of the interviews conducted

Organisations	# of Interviews
Securities Exchange Commission of Pakistan (SECP);	7
Stock Exchanges	2
Pakistan Institute of Corporate Governance (IFC, SECP et al.);	1
Institute of Chartered Accountant of Pakistan (ICAP)	1
Government officials.	2
Banks	2
External Auditors	2
Family-controlled listed companies (Chairman; CEO; CFO; Director; Accountant; Manager.)	20
Family-controlled delisted companies (Chairman; CEO; CFO; Director; Accountant; Manager)	4
Total	41

Documentary evidence and interviews corroborated to have an additional insight into the regulation development process. The documentation examined mainly consisted of public and legal documents from the IFAs, government, SECP, KSE, and family-controlled listed companies (Table 4). Newspaper reports covering the period also played key role in our analysis. Multiple sources of data enabled us to strengthen the validation process. Despite its limited availability, a huge amount of documentary evidence was obtained. Presentation of our findings to various communities (academic conferences, participants) eliminates misinterpretation and enhances trustworthiness (Lincoln and Guba 1985).

Table 4: Details of documents analyzed

Sources	Nature
SECP and KSE	Annual reports, directives, policy statements, press releases, activity announcements
Regulatory Documents	Company Act 1984, CG codes 2002 and 2012, amendments
Press Review	Professional magazines, financial newspapers
IFAs (ADB, WB, IMF)	Development projects reports in general and related to CG in particular

Data analysis was conducted in two stages. The first stage of analysis was real time. Real-time data analysis during and after the interview sessions enabled us to understand and interpret

interviewee's comments leading to decisions about subsequent questions (Eisenhardt 1989). The next stage of analysis was conducted after the fieldwork was completed. All the authors actively participated in conducting thematic analysis by reading and rereading the data. We used theoretical thematic analysis technique for identifying and analysing themes within qualitative data collected through interviews and documents (Braun and Clarke 2006). We began by identifying all interesting themes in relation to the research questions. As analysis progressed, theoretical themes became more precise. We connected and arranged responses of the interviews within pre-defined theoretical themes. We were particularly intrigued about why and how CG codes (2002, 2012) were introduced and implemented in Pakistan; why and how various organizations and actors promoted, shaped, and resisted CG codes; and the nature of strategies, resources and connections enrolled by these organisations. We divided analysis into two phases (see table 5). In the first phase, we focused our analysis on development and implementation of the first CG code 2002. In the second phase, we focused on the revised version of CG code 2012. These two phased analyses provided insight into shifting roles, strategies and interests of multiple actors in the regulation development process.

3. Findings

The development and implementation of the CG codes has been analysed in two phases. In Phase-I we focus our analysis on the factors and motivations behind the introduction of first code of CG and strategies adopted by different actors in promoting and shaping the proposed regulations. In phase-II we examine how actors shifted their strategies to maintain their dominance on the RS. Table 5 presents the shifting strategies/tactics of IFAs, SECP and regulatees in the development and implementation of CG codes. These three main actors played their roles in both phases of analysis. The strategies of other key actors identified in the

preceding section will be discussed accordingly as their roles were restricted to one phase only.

For example, PICG was established in 2004 after the introduction of first code of CG in 2002.

Table 5: Strategies mobilized to influence development and implementation of CG codes.

		IFA	SECP	Regulatees
Phase I (1995-2002)	Strategies / Tactics	<ul style="list-style-type: none"> Influence Control 	<ul style="list-style-type: none"> Imitate Balance 	<ul style="list-style-type: none"> Conceal Escape
	Outcomes	<ul style="list-style-type: none"> Establishment of SECP Introduction of CG codes 	<ul style="list-style-type: none"> AA model of CG codes Weak CG codes Comply and explain 	<ul style="list-style-type: none"> Decoupling Delisting Regulatory compliance
Phase II (2002-2014)	Strategies / Tactics	<ul style="list-style-type: none"> Influence Control 	<ul style="list-style-type: none"> Influence Co-opt Bargain 	<ul style="list-style-type: none"> Attack Co-opt Control Negotiate Escape
	Outcomes	<ul style="list-style-type: none"> MOU signed to initiate CG codes revision process Establishment of PICG Introduction of revised CG Codes 	<ul style="list-style-type: none"> Mandatory compliance More control Stringent CG codes 	<ul style="list-style-type: none"> Reduction in no of Independent Director requirement Delayed CG codes revision process Decoupling Delisting

Phase I (1995-2002) - Development and implementation of CG code 2002

SECP introduced CG codes in 2002. The introduction of these CG codes can be linked with the establishment of SECP. These two regulatory changes were part of the Structural Adjustment Programs offered by Asian Development Bank (ADB). The SECP was thus a key actor in the introduction and development of CG codes in Pakistan.

Introduction of SECP & CG Codes – Structural Adjustment Programs

IFA's have more power in emerging economies in the introduction of regulatory reforms (Siddiqui 2010). Same is the case with Pakistan. In 1995, the Asian Development Bank (ADB) provided \$250 million loans for a Capital Market Development Program and a grant of \$5 million in Technical Assistance to the government of Pakistan to reform its capital market (ADB 2005). According to the ADB project report 2002, the main purpose of loans was to

enhance Pakistan's integration with international capital markets (ADB 2002). ADB provided technical assistance (TA) loans to support government's financial markets and governance program. One of the main requirement of this loan was the establishment of an independent regulatory body i.e. SECP. As corroborated by a highly ranked official from the SECP:

...the ADB told the government that we are ready to pay you a certain sum, but that amount should be utilized for the establishment of an independent institution i.e. the SECP. In response, government passed the Security and Exchange Act 1997.

Under the capital market development program, government passed a Security and Exchange Act 1997 which led to the establishment of the SECP in 1999. Since its inception, IFA's implemented their programs in Pakistan through SECP. According to ADB project report 2002,

...The ministry of finance will be the executing agency... The Securities and Exchange Commission of Pakistan (SECP) will be the implementing agency, with full responsibility for implementation of all conditions within its regulatory and development mandate.

SECP in collaboration with IFA's undertook several regulatory reforms including: the implementation of International Accounting Standards; improvement in governance and risk management of stock exchanges; implementation of the concept of Non-Banking Finance Corporations; and implementation of the first major code of CG in 2002.

The CG code 2002 was also part of ADB's Structural Adjustment Programs aimed at promoting free market economy (Arnold 2012). A report by the ADB highlighted the objectives of this program as follows:

...the Capital Market Development Program was designed to develop the securities market that would facilitate the efficient allocation of resources in the economy and help broaden and deepen the financial sector, besides providing alternative sources of funding to the industry, which had traditionally relied on Government directed credit. It was in line with ADB's country operational strategy of which supporting capital market reform was one (ADB 2005).

As stated above the prime objective of loans sanctioned to Pakistan was the integration of it's capital market with international capital market. Following the conditionality, SECP adopted an acquiescence strategy with the introduction of the CG Code 2002 by mimicking the

1
2
3 internationally accepted CG practices. Siddiqui (2010) also observed the same pattern in
4
5 Bangladesh. The main aim was to improve investors' confidence. A senior official from SECP
6
7 justified this imitation tactic by stating that:

8
9
10 *...we copied international best practices of CG. As these were best practices – there was no*
11 *need to reinvent the wheel. We wanted businesses to be conducted in a manner that is*
12 *acceptable to the international community. We also wanted our code to meet the requirements*
13 *of different CG codes prevailing in developed countries.*

14
15
16
17 Similarly, the managing director of Karachi Stock Exchange argued that “*The Anglo-American*
18 *model of corporate governance is a universally accepted regulation*”. Moreover, regulators
19
20 were of the view that they could learn from the experience of other regulators in developed
21
22 countries. Another senior official from the SECP explained:

23
24
25
26 *...codes of corporate governance are already prevailing in developed countries, and these*
27 *countries have immense experience in code development. Thus, there is no need to re-invent*
28 *the wheel, once we have similar CG issues.*

29
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31
32 SECP introduced CG codes 2002 following Anglo-Saxon model of CG but promoted these
33
34 codes are necessary to improve investors protection (Gull, Abid et al. 2022). SECP
35
36 commissioner stated that:

37
38
39 *...the main purpose of the CG code is to look after the interests of minority shareholders. In*
40 *family-owned businesses, it is important to provide some protection to the rights of minority*
41 *shareholders.*

42 Similarly, another interviewee from SECP argued that:

43
44
45 *...this Code will boost investors' confidence in public listed companies because they know that*
46 *these companies are following international procedures and a stringent regulator (i.e. SECP)*
47 *is monitoring the company's activities.*

48
49
50 SECP promoted itself as a custodian of the public interest as follows:

51
52
53 *...once someone from the general public owns shares, the SECP has jurisdiction over the listed*
54 *company.*

55 Regulators communicated that good CG will not only enable companies to attract foreign
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57 investments but will also enable small businesses with innovative ideas to attract equity
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3 finance. A senior officer from Karachi Stock Exchange explained the importance of good CG
4
5 as follows:

6
7
8 *...export-oriented companies who want to become part of the global supply chain and want to*
9 *extend their businesses require large capital, as well as longer-term capital. In this case, equity*
10 *finance is a very good option. Such reforms will provide enabling environment and boost the*
11 *confidence of both companies and investors to do business.*
12

13
14 Our findings are in line with prior studies who highlighted the global isomorphic pressures in
15
16 the introduction of CG in developing countries (Reed 2002, Siddiqui 2010, Arnold 2012,
17
18 Areneke, Yusuf et al. 2019). Findings revealed that in Pakistan the initial introduction and
19
20 implementation of CG codes were results of structural adjustments programs in the name of
21
22 efficiency. IFA's used manipulation strategy to influence and control the introduction of CG
23
24 codes 2002 in Pakistan.
25
26

27 28 ***Family businesses – historically dominant ideology*** 29

30
31 CG codes 2002 encouraged listed companies to have at least one independent director
32
33 representing minority shareholders (Section 35(i)-(b)). The inclusion of independent and non-
34
35 executive directors in the BOD's was the major change in CG code 2002 as compared with
36
37 Companies Ordinance 1984. All the other clauses in CG codes 2002 were also part of Company
38
39 Ordinance 1984. This shows a lack of effort from SECP in the development of CG codes 2002.
40
41 Similar to the other Asian Economies (Arnold 2012), Family businesses which are historically
42
43 dominating Pakistani regulatory space considered CG codes 2002 a threat to their control on
44
45 business. Regulatees may become engaged in active resistance strategies if their discretion and
46
47 attainment of goals are being threatened (Oliver 1991). Internationally accepted requirements
48
49 to have independent non-executive directors, including those representing minority interests,
50
51 on the board was considered as an interference in family business affairs. One founding family
52
53 director was critical of this requirement:
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3 *...in Pakistan, families are holding approximately 80-90% shares. This regulation is requiring*
4 *companies to have one independent director and four non-executive directors on the board of*
5 *seven. It means 70% of the directors are outsiders and not involved in the day-to-day business*
6 *affairs...How will this outsider dominated board effectively work? In our case, it is infeasible.*
7 *We are holding 95% shares, and you are asking us to work for the 5% minority interests. **We***
8 ***won't let you do it.** The domination of outsiders will make the board useless and dysfunctional*
9 *[emphasis added].*
10
11

12
13 Another chairman of a family-listed company argued that there are no benefit of CG Codes and
14 said: “*...for us money and profitability are important. I don't see any benefit of this code.*
15
16
17 *Rather this code diverts our attention from business issues and increased our cost.*”
18
19

20
21 When the number of pressurising constituents and conflicting expectations are high more active
22 strategies are a likely response to institutional pressures (Canning and O'Dwyer 2013).
23 Dominant families may exert pressure or challenge legal authority (Weber 1978). SECP was
24 fully aware of the power of long-established industrialist families which are dominating the
25 corporate landscape and their closed link with political elites. At the local level, the SECP
26 anticipated resistance from family listed companies if it were to implement the Anglo-
27 American model of CG in true letter and spirit. SECP adopted a compromise strategy to counter
28 resistance from powerful business families. Whilst all the clauses in the CG codes 2002 were
29 ‘mandatory’, the pertinent clause of having independent directors on the board of directors was
30 made ‘voluntary’. This relaxation was the big sigh of relief for family businesses. This meant
31 that family businesses can avoid having independent directors on their boards. A senior officer
32 from SECP explained why this clause was relaxed as follows:
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49 *...to have wider acceptability as well as to avoid immediate resistance, this criterion was kept*
50 *voluntary.*
51
52

53
54 CG codes 2002 did not introduce any new punitive action or fine, in addition to those already
55 in place under the Companies Ordinance 1984. Family businesses were happy with the ‘comply
56
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59
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or explain' requirement of the code, and with the 'voluntary' discretion to have non-executive.

As explained by a CEO of a family listed company:

...The 2002 code required us to have independent directors and non-executive directors. As this requirement is not mandatory, thanks to SECP, this code did not bother us.

SECP's compromised strategy by balancing conflicting demands of pressurising constituents resulted in toothless CG codes.

Unintended Consequences: Symbolic Compliance and Delisting

Mueller (2006) advocated that Anglo-Saxon approach to CG reforms in developing countries would facilitate the creation of thick equity markets. However, in Pakistan the adoption of Anglo-American models of CG resulted in unintended consequences, as earlier researchers highlighted (Sarhan and Ntim 2019). SECP not only introduced CG codes 2002 in line with an Anglo-Saxon model but also adopted a compromised strategy to ease compliance with these codes. If competing logics exists, then compliance may result in decoupling, compromises and selective coupling (Mzenzi and Gaspar 2022). Similarly, findings revealed that even these toothless codes faced active resistance from family businesses. CG codes 2002 resulted in symbolic compliance and a delisting trend in Pakistan (Wan Mohammad and Wasiuzzaman 2020, Kimani, Ullah et al. 2021). SECP in collaboration with International Finance Corporation (IFC, SECP et al.) and PICG conducted a survey on CG practices in Pakistan in 2007. This study observed that CG codes 2002 resulted in symbolic compliance and decoupled CG practices in listed companies. For example, one chairman of a local listed company argued in this survey:

"...I have to follow every word of the code. I don't understand why independent director, audit committees, internal audit, company secretary is important but the codes want them and I need to have them....I think code has not increased the company profitability...So why I do follow the code? Because I am owner of a listed company and I have to follow the code because SECP want us to follow the code" (IFC, SECP et al. 2007, p7)

Another company secretary endorsed this point and said:

1
2
3 “...CG is important because we have to follow the code of CG...benefits like access to foreign
4 capital, institutional investors, increased reputation of business, all this do not matter to my
5 company...I only consider CG important because SECP wants me to consider it important.”
6 (Page 7)
7

8 One of the chief executive officers of a family-owned business highlighted the legal
9 precautions of non-compliance and said:
10

11 “...do I have an option but to consider CG very important? The SECP wants it to be very
12 important. If I do not think CG is important, I might end up in jail and my company will be
13 delisted and I will go out of business.” (Page 22)
14

15 Family businesses didn't recognise the importance of CG codes 2002 other than legal
16 requirement. CG codes 2002 required companies to have independent directors which will
17 bring fresh and independent opinion about the company affairs. A family director remarked:
18
19

20 “...we have many reservations on the relevance, strictness, suitability, and applicability of
21 code of CG
22

23 An old founding CEO of company said:
24

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26
27
28 ...there are many types of consultants available in the market e.g., corporate, financial,
29 technical, and electronic etc. when company needs help, they can hire consultant. So why we
30 need independent director?
31

32 The family controlled listed companies' perception about the importance of CG codes resulted
33 in a symbolic compliance and delisting trend in Pakistan. In family businesses compliance with
34 CG codes was mere tic-box implementation. One owner-director said that:
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39 “...we have no time to deal with compliance issues of CG code. We have hired a person, whose
40 job is only to deal with CG issues. He is working under CFO and company secretary.”
41

42 A company secretary in a family listed company who was assigned a compliance job explained.
43
44

45 “...our directors have no idea what this code is and transfer all the responsibilities on my
46 shoulder...this code made my life more difficult. Now in addition to my regular job, I have to
47 take care of all corporate governance codes related issues....I have to do communication with
48 SECP and KSE...and I have to make sure that all the paperwork is in accordance with the code
49 requirement”.
50

51 A CEO of a family listed company admitted:
52
53

54 “...ideally companies should do compliance with code with true letter and spirit, but it is all
55 happening on paper, not in practical way”.
56

57 Policy makers also acknowledged the symbolic compliance of code from family controlled
58 listed companies. An official from SECP also acknowledged decoupling:
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3 “...majority of the companies are owned by the families, and they are not very keen to follow
4 the code in the true spirit. They want to meet the requirements for the sake of meeting the
5 requirements, but they don't want to take benefit out of that”

6 A company secretary explained symbolic compliance and said:
7
8
9

10 “...there is only symbolic compliance with the code for documentation only. For example, our
11 company somehow appointed an ID but only to mention this in annual report”

12 A national newspaper also reported symbolic compliance in family controlled listed
13 companies:
14
15
16

17 “... [Family businesses] have packed the board of directors with personal employees,
18 including some people who do not have the educational or technical qualifications or
19 experience to be able to execute their fiduciary responsibilities to the company's other
20 shareholders... As the largest shareholder, [he] does have the right to pick the largest number
21 of board members, but he seems to have gone out of his way to pick people who would not ask
22 too many questions on behalf of the minority shareholders... For instance, a man listed on the
23 board of directors for financial year 2010 appears to have only a primary school education
24 and serves as a waiter in [his] residence”. (Tribune 2012)

25 In addition to symbolic compliance many listed companies adopted an escape strategy by
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voluntary delisting themselves from the stock exchange to avoid compliance with CG codes
2002. Total 79 companies delisted from the stock exchange during 2001-2004 within one year
before and after the introduction of CG codes 2002 (figure 2). This delisting trend was also
observed before and after the introduction of CG codes 2012. Therefore, the detailed analyses
of delisting trend at both the occasion at the introduction of CG codes 2002 and 2012 will be
discussed later in the section.

Summary of Phase I

Economic dependence of Pakistan on IFA's is the main source of power that allowed IFA's to
assert their position in RS. IFA's manipulate this situation and influence and control regulatory
reforms in developing countries (Siddiqui 2010, Arnold 2012). In line with prior studies (Reed
2002, Siddiqui 2010) CG codes 2002 in Pakistan were also introduced as a result of pressures
from donor agencies in the name of SAP. Our paper extended this literature by analysing
national actors who can both challenge and change IFA's effort to establish international

1
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3 financial systems (Arnold 2012, Kimani, Ullah et al. 2021). Newly established SECP's legal
4 authority, and its capacity to operate independently are subject to multiple pressures.
5
6 Organisations comply with the demands of pressuring constituents if they perceive conformity
7 will enhance their social and economic fitness (DiMaggio and Powell 1983). The SECP, which
8 is politically and economically dependent on donor agencies, imitated an Anglo-American
9 model of CG to maintain appearance of legitimacy in the eyes of donor agencies. Political and
10 business families' power had been established since Pakistan gained independence. Their main
11 sources of power include close connection with ruling elite, key positions in regulatory and
12 professional institutions and control of local industries. These sources of power allowed them
13 to shape any regulatory change. Hancher and Moran (1989) said regulatory space can be
14 defined by three dimensions – who is subject to regulation; what issue are regulated; and what
15 remedies the regulator may use. SECP was going to regulate political/business families whose
16 power had been established for more than 50 years; therefore, it was quite predictable that these
17 families would actively resist CG codes. The compromised strategies adopted by SECP
18 described above to ease out compliance with newly introduced codes were not effective.
19 Regulatees concealed conformity through symbolic compliance and escaped from stock
20 exchanges to avoid regulatory compliance. Power and related mechanism which enabled actors
21 to mobilise are crucial to understand why certain regulations are developed, sustained and
22 contested (Mohamad-Yusof, Wickramasinghe et al. 2018). SECP at this critical juncture
23 realised that it is important to bring local influential political/business families to the table to
24 introduce more acceptable CG codes. The motives behind introduction of CG codes 2002 were
25 not internally driven, rather it was part of SAP; however, the idea to revise CG codes was
26 initiated by SECP. Therefore, we decided to analyse the evolution of CG reforms in Pakistan
27 in two phases. The second phase which will be presented next highlights the motives, strategies,
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resources, and power of the multiple actors being mobilised to influence revised version of CG codes.

Phase II (2002-2014) - Development and implementation of CG code 2012

In August 2002, the SECP - in collaboration with Pakistan's Economic Affairs Division and the United Nations Development Program (SECP and UNDP) - launched a project to raise awareness and identify ways to improve the CG code 2002 which had been initially implemented without much consultation. This project highlighted that the CG codes 2002 had not been a big success and had resulted in unintended consequences. The findings of this project, symbolic compliance and delisting trend, subsequently motivated SECP to initiate revisions to the CG code 2002. This section will analyse the actors' shifting strategies and resources enrolled to control the development and implementation process of new CG codes (see table 5).

SECP's manipulation strategy to gain power and neutralize resistance

Unlike CG code 2002 which was introduced due to pressure from IFAs, this time regulatory change was initiated by SECP. Although the SECP has statutory power over regulatory matters, it faced interference from family businesses and the government in the regulatory space. When developing regulations, regulators may be bound together in relation of exchange and interdependence (Hancher and Moran 1989) to take command over regulatory processes. Reforms should recognize their political feasibility (Hopper 2017). To make CG Codes politically feasible SECP formed strategic alliances with transnational actors to insulate or mitigate political interferences. As explained by a senior officer from the SECP:

...initially we were part of the government's finance division, and we subsequently realised that we can't develop and grow into an independent regulator unless we obtain power and financial independence. We learned from the way we were established that to effectively undertake any reform in the market we need to take sympathies from international donor agencies e.g. ADB and the World Bank.

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5 SECP already witnessed resistance from listed companies in the form of a symbolic compliance
6 and delisting trend. In addition to this they also anticipated interference from local actors in
7 any change in existing CG code 2002. To counter local interferences, SECP adopted a
8 manipulate strategy by employing co-opt tactics. SECP approached the International Finance
9 Corporation (IFC, SECP et al.) to provide financial support and monitor the revision of the CG
10 code. Once again funding organisations adopted a “manipulate” strategy and required SECP to
11 establish a new organisation i.e., PICG. The IFC wanted SECP to delegate all the CG Codes
12 related issues to PICG. SECP had no choice but to comply with this requirement. In July 2003,
13 a MOU was signed between IFC and SECP to establish PICG. In December 2004, PICG was
14 established under section 42 of Companies Ordinance 1984 to strengthen CG codes in Pakistan.
15 After the establishment of PICG, on the advice of the IFC, the SECP delegated the task of
16 revising the CG code to PICG. Chairman PICG confirmed this process and said:

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33 *...the SECP approached the IFC saying that: the code is being redundant for quite some time,*
34 *please assist us in revising it. IFC replied: “you already have an Institute of CG. Ask this*
35 *institute. We shall assist and monitor this process”. That’s how SECP approached us, and we*
36 *set up a task force to conduct the revisions and provide recommendations to the SECP.*
37

38
39
40 In August 2005, the IFC and the SECP signed a memorandum of understanding to strengthen
41 the CG code 2002. In a press release by SECP (2005), the IFC’s acting director for Middle East
42 and North Africa region commended this project as follows:

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45
46
47 *...what makes this joint initiative so unique is that it will attempt to turn a short-term technical*
48 *assistance project into a sustainable structure that can provide quality corporate governance*
49 *services. It will do so by working with and through the recently established PICG.*
50

51
52 Findings revealed that IFA’s influence regulatory reforms process in developing countries.

53
54 Once SECP secured support from transnational actors, SECP adopted a co-opt strategy with
55 local actors to neutralise any resistance in regulatory change. In the next section we will analyse
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1
2
3 the outcome of this co-opt strategy from SECP, family businesses counter strategies, and
4
5 resources enrolled to dominate CG codes revision process in regulatory space of Pakistan.
6
7

8 ***Family businesses 'defiance and manipulation strategies***

9

10
11 In 2007, as advised by SECP, PICG formed an eleven member's task force to revise the CG
12
13 code 2002 - three members were from large family businesses and the remainder were from
14
15 regulatory bodies. Representatives from small and medium family listed businesses, which
16
17 represented most of businesses, were not included in the task force. In 2009, the PICG task
18
19 force submitted its final recommendations to the board of PICG for consideration and
20
21 submission to the SECP. In October 2010, SECP published a draft of the changes proposed by
22
23 PICG on its official website for public comments.
24
25

26
27 In line with Areneke, Yusuf et al. (2019), family businesses in Pakistan resisted CG codes.
28
29 Once the consultation process was over, family businesses used a manipulation strategy to
30
31 dilute the new CG code, by persuading the Parliamentary Senate Committee to intervene and
32
33 influence the SECP. In January 2011, the Parliamentary Senate Committee called the SECP to
34
35 provide a briefing on the proposed amendments to the CG code and raised concerns about the
36
37 stringent requirement regarding board composition. A national newspaper (Shahbaz 2011)
38
39 reported a senator's concern as follows:
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41

42
43 *...the proposed amendments are very stringent which will discourage companies from listing*
44
45 *on the stock market(Tribune 2011).*

46
47 The Parliamentary Senate Committee pressured the SECP to reduce the requirement regarding
48
49 the number of independent directors on a company's board from three to two. As described in
50
51 the context section, it is difficult to differentiate between political and business families in
52
53 Pakistan. They are two sides of the same coin. Some of the members of Parliamentary Senate
54
55 Committee were also the owners of the listed companies. Here they used their political power
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3 to challenge proposed rules and requirements. Senior official from SECP angrily talked about
4
5 this issue and said:

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8 *...some of the parliamentary senate committee members owned and controlled listed*
9 *companies. That's why they called us to raise their concerns about the proposed amendments*
10 *and possible implementation issues. They asked us to undertake another round of consultations*
11 *with major stakeholders before finalising the new code. The committee also required another*
12 *briefing before launching the new code of CG.*
13

14
15
16 He further highlighted the SECP's frustration regarding the interference of the Parliamentary
17
18 Senate Committee in the CG code development process:

19
20
21 *...we have already finalised and launched our proposed amendments for public comments.*
22 *Following the senate committee order, we had to start our consultation process again.*
23

24
25 In 2011, as advised by the Parliamentary Senate Committee, the SECP conducted another
26
27 round of consultation with local actors. The discussion mainly revolved around issues of
28
29 concern to family businesses i.e. the composition of the board, the role of independent director,
30
31 the number of directorships a director can hold, and the disclosure requirements for related
32
33 party transaction. However, SECP took a big step this time. SECP approved and launched the
34
35 CG code 2012, without reverting to the Parliamentary Senate Committee in order to avoid
36
37 further interference. This also shows the evolution of an independent regulatory body in RS;
38
39 however, family businesses were once again successful in influencing the new CG code
40
41 through their political connections. Challenge and attack tactics from family businesses
42
43 resulted in compromise on the independent director requirement. CG codes 2012 required listed
44
45 companies to have only one independent director on their board instead of three, as initially
46
47 suggested by the PICG task force. Initially PICG task force suggested that the internal audit
48
49 committee should be chaired by an independent director. SECP also relaxed these criteria.
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55 ***Escaping the CG regulatory space: delisting strategy***
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Regulatees may comply with a legislation which has legal backing (Shapiro and Matson 2008); however, family businesses showed strong resistance to the CG codes, even though, the SECP involved them in the CG codes development and implementation process. Prior researcher also observed the same phenomenon (Hopper, Lassou et al. 2017, Areneke, Yusuf et al. 2019). A founding CEO of a family listed company argued that the code is counterproductive and costly to comply with.

...for us, money and profitability are important. I don't see any benefit of having independent directors, board committees. Rather this code diverted our attention from business issues and increased our cost.

A CFO of a family listed company highlighted the complexities the CG codes added to their business as follows:

...this code turned the family business from a simple operation to a difficult operation, which is having more costs than benefits. This code increased compliance and reporting costs. For example, costs of quarterly reporting and biannual reporting; costs of selecting and appointing CFO, CEO, Audit Committees, and Director Training Programme.

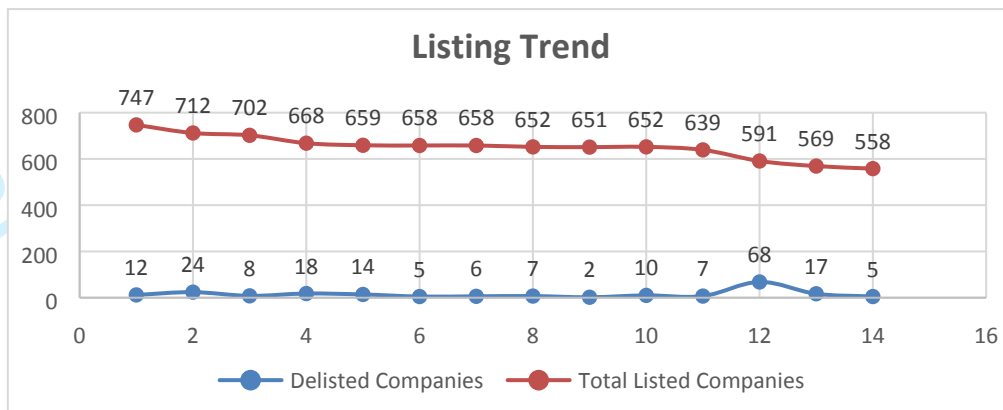
A family director of delisted company said:

"I don't know what regulator wants from us. The corporate sector did not accept the first code of CG which resulted in devastating outcomes as size of stock exchange is shrinking day by day. Money is flowing away. Instead of addressing these issues, regulators brought more strict CG rules"

Many family businesses showed their discontent by escaping the CG regulatory space through delisting. Figure 2 shows the delisting trend. Prior to the implementation of the CG 2002, there were 747 companies listed on Karachi Stock Exchange. As of 2014, the number of companies listed on the stock exchange fell to 558⁴.

Figure 2: Listing / Delisting trend

⁴Total companies listed includes both newly listed and delisted companies.



Source: Compiled from annual reports of SECP between 2001-2014

The delisting trend created tension between the SECP and the stock exchanges. Stock exchanges, as well as family businesses, pressured SECP to make further compromises. A senior official from Karachi Stock Exchange was critical of SECP's obsession to adopt internationally accepted best practices as follows:

...we have observed a de-listing trend all over the world. However, here in Pakistan the reasons are different. One of the reasons is the code of corporate governance which was voluntary in the beginning and is now becoming mandatory. Introduction and implementation processes should be properly sequenced and should follow a carrot and stick approach. In Pakistan, there is only stick with no carrot.

He argued that there are no tax incentives for companies to list on stock exchanges:

...why tax rate is the same for both listed and private companies? It is a huge disadvantage for companies to expose themselves to high international standards of corporate governance.

Most of the companies delisted through voluntary buyback option. A CEO of a family listed company disclosed that:

...in the beginning government forced companies to list in return for huge tax incentives. Later, the government revoked the tax incentives, but we kept ourselves listed because the government was not interfering in our businesses. The CG regulation created two issues, first, it increased our implementation cost when there are no benefits, and second, there is a continuous interference from SECP in our businesses.

A company secretary of a family delisted company pointed out that its company avoided complying with the code through delisting:

...our shareholding was around 90% which is substantial. We were not ready to comply with the code. So we decided to delist and avoid implementation of the code.

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3 The multitude of pressures including tension between regulatory bodies, delisting trend, and
4 symbolic compliance once again forced SECP to adopt a compromise strategy immediately
5 after the introduction of CG code 2012. For example, family businesses have argued that they
6 could not comply with the code, by citing implementation difficulties. The annual report of a
7 family business mentioned that they could not appoint an independent director because none
8 of the existing directors possessed the criteria for appointment as independent director and no
9 new independent director applied for the position:
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19 *In the previous election of Directors none of the Directors possessed the criteria for*
20 *appointment as independent Director. Further, no independent shareholder came forward to*
21 *contest the election; hence the shareholders of the company were unable to elect an*
22 *independent director. However, the Management of the Company is fully committed and*
23 *planning to appoint an independent Director in the next Board's election.*

24 In response to the pressures from regulatees and preceding implementation difficulties, in
25 January 2014 SECP changed the requirement to have an independent director to head the
26 internal audit committee from 'mandatory' to 'voluntary', and relaxed the stringent eligibility
27 for CFO appointment (SECP 2014). This change once again highlighting the dominant position
28 of political and business families in the regulatory space of Pakistan and their power to
29 influence any regulatory change which may hamper their interests.
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39 ***Summary of Phase II***

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42 The structure of accounting regulations are dynamic and subject to change due to the actors
43 that are involved or/and the nature of social systems in which interactions are embedded
44 (MacDonald and Richardson 2004). The examination of regulatory process thus provides
45 insight into the nature of interactions that shape, negotiate and maintain regulatory structures.
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51 The analysis of the CG codes revision process highlights the actors involved, and the nature of
52 interactions and socio-political context in which CG codes were developed and negotiated. The
53 analysis also provides insights into the actors shifting strategies to gain, maintain and dominate
54 their positions in RS. IFA's once again enrolled same strategy of manipulation by enrolling
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3 influence and control tactics. As for the SECP, they shifted their passive approach from
4
5 acquiescence and compromise to more active manipulation strategies. Persuading IFA's gave
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7 them economical and political support to initiate the regulatory change process. However,
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9 SECP's capacity to regulate was restrictive in this phase as well. Stringent CG codes led the
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11 business/political families to express their concerns and lodge active resistance strategies of
12
13 defying and avoiding and pushing the SECP to modify the most rigid requirements (Ahmed
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15 and Uddin 2022). Family businesses through their political connections attacked and dismissed
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17 SECP efforts to introduce new CG codes in 2009. Moreover, large numbers of family
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19 businesses once again adopted escape tactics to avoid regulatory requirements. The reasons for
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21 delisting both in 2002 and 2012 were same. Business families treat public listed companies as
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23 their private businesses (Ahmed and Uddin 2022) and foresee SECP as interference in their
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25 companies' internal affairs. The CEO of one listed company that escaped from the stock
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27 exchange in 2012 explained:

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33 *...we want to delist from stock exchange in 2002, but regulator guarantee us that these CG*
34 *codes will remain implemented as comply or explain basis. Independent director requirements*
35 *will not be applicable on family businesses. SECP told us that they will have separate CG codes*
36 *for family businesses. Later they forget their promise and introduced more stringent CG codes.*
37 *It is not easy for us to comply for these codes, and we don't see any benefits in complying with*
38 *these codes. So, this time we decided to leave the stock exchange.*
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42 The delisting trend in 2012, coupled with criticism from stock exchanges and financial analysts,
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44 once again put SECP under immense pressure. Evolution of CG codes in Pakistan highlights
45
46 that RS in developing countries is occupied by and divided among different actors. Actors
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48 subject to regulation may adopt different strategies or tactics to avoid compliance (Avina-
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50 Vazquez and Uddin 2016). Our paper challenges taken-for-granted assumptions that global
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52 isomorphic pressures are sufficient to diffuse international accounting practices in developing
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54 countries. Prior studies argued that power is concentrated in the hand of IFA's and ignore other
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56 players in RS.
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Discussion and Conclusion

This study has mobilised the notion of regulatory space and strategic responses to analyse the regulatory process of CG codes in the dynamic regulatory space of Pakistan. Our focus provides insights into actor dynamics, circumstances, underlying motives, and resources enrolled to occupy and dominate RS. Data was analysed in two phases: the regulatory process of CG codes 2002 presented in phase I; and phase II covers CG codes 2012. Our focus on process of CG governance codes as opposed to its outcomes and effects, reflects our methodological commitment to have qualitative research in the CG literature (Gendron 2018). In this paper we analysed how multiple actors including IFAs, regulator (SECP) and regulatees (political and business families) influenced CG codes development and implementation process in Pakistan.

In line with prior studies, this study showed that IFAs influenced and shaped CG codes to suit their interests by enrolling multiple strategies (Hopper, Lassou et al. 2017, Areneke, Yusuf et al. 2019). IFAs 'manipulated' the country's poor economic condition in promoting internationally accepted accounting and CG practices as a prerequisite for obtaining loans. Prior studies identified that IFAs in developing countries (e.g. Uddin and Hopper, 2001; Siddiqui, 2010) have more power in the regulatory process and ignore the role and power of other influential actors in the regulatory space. In contrast to prior studies, this study argued that there are multiple actors who try to gain and maintain their control of regulatory matters in the regulatory space of Pakistan. This study presented how local powerful actors influenced CG regulation by employing different strategies.

In developed capital market newly established regulators address constituent demands through bargain to gain legitimacy in the regulatory space (Shapiro and Matson 2008, Hazgui and Gendron 2015); with the exception by Canning and O'Dwyer (2013) which showed that the

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3 independent oversight body in Ireland somehow manage to overcome resistance from the
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5 profession. In developing countries like Pakistan, regulators are exposed to multiple powerful
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7 transnational and local actors. The SECP being a regulator attempted to establish and maintain
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9 its legitimacy in the regulatory space, but its authority is not simply that of ‘command and
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11 control’. Whilst the Securities and Exchange Commission Act (1997) conferred SECP the
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13 statutory power over regulatory matters, a number of actors influenced its regulatory agenda.
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15 Transnational actors pressurised the SECP to adopt internationally accepted practices in return
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17 for loans and grants. The government has the power to interfere in regulatory matters through
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19 appointing the head of SECP and through the parliamentary process. Family businesses
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21 campaigned and formed coalitions to protect their interests. Despite all these pressures, SECP
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23 adopted shifting strategies from phase I to phase II to gain control over regulatory change. For
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25 example, SECP enrolled ‘acquiescence’ and ‘compromise’ strategies at the time of introducing
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27 the CG code 2002. However, during the development process of CG code 2012, SECP initially
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29 enrolled active ‘control’ strategies but later shifted towards ‘co-opt’ and ‘bargain’ strategies.
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31 These shifting strategies resulted in mandatory and more stringent CG codes in Pakistan.
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33 To keep regulatory institutions under control, political families employed ‘influence’ and
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35 ‘control’ strategies by placing their loyal supporters in various key positions in regulatory
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37 institutions. The findings are consistent with Oliver (1991)’s prediction that regulatees will
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39 employ active resistance strategies if they believe that compliance with codes will threaten
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41 their status quo or constrain their activities. Family businesses used their political connections
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43 to continuously keep the regulator in a defensive position. Family businesses used their
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45 political connections to defeat CG codes, by adopting avoidance, defiance, and manipulation
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47 strategies. Similarly, when CG code 2002 was introduced family businesses enrolled conceal
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49 and escape strategy. During the development and implementation process of CG code 2012,
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51 however, they enrolled more active ‘defiance’ and ‘manipulative’ strategies. Some regulatees
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3 avoided CG codes by escaping the regulatory space through delisting, and in the process further
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5 pressured regulators.
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8 The contributions of this study are manifold. First, theoretical contribution of this study is to
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10 extends institutional theory's limited focus on institutionalisation as an outcome by recognising
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12 it as a social and political process (Ashraf, Muhammad et al. 2019) "...reflecting the power of
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14 organised interests and the actors who mobilise around them" (Dillard, Rigsby et al. 2004, p
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16 510). Institutional theory based studies undermine the role of agency, power, social interests
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18 and politics in institutionalisation process (Dillard, Rigsby et al. 2004, Tsamenyi, Cullen et al.
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20 2006). Prior studies arguing that the adoption of CG codes is the outcome of mimetic,
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22 normative or coercive response to institutional pressures fail to capture the political process
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24 that takes place in the development and implementation process of CG regulations.
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28 Another theoretical contribution of this study is response to the call of Alawattage et al. (2016)
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30 asked for greater epistemic theorisation of globalisation of international accounting practices
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32 and how national or local decision maker and regulated perceive, translate, communicate and
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34 deployed these practices locally. Berglöf and Claessens (2006) also suggested that it is
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36 important to understand the relationship between self-regulatory bodies and organisations to
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38 better understand development and enforcement of laws and regulations. In response, this study
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40 revealed that CG diffusion process in developing countries is "indisputably a political process
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42 and...involves the contest for power" (Hancher and Moran, 1989, p.4). This study, by
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44 mobilising the concept of regulatory space, provided insights into how the CG regulatory
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46 agenda was initiated; how the power, interests, and the dynamic political interactions of the
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48 influential actors influenced the development and implementation of CG codes in the context
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50 of developing countries (Grada 2022).
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56 Second, this study conducted a longitudinal analysis to analyse how multiple influential actors
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58 shape regulation development and implementation processes within regulatory space. Canning
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3 and O'Dwyer (2013) argued that Oliver (1991) implicitly focuses on strategic responses of
4 single targeted actors alone (e.g., regulatees) and assumes regulators stick to their own strategic
5 positioning. They extended Oliver's (1991) framework to two classes of actors (regulator and
6 regulatees). This study has documented how multiple actors (e.g., IFAs, regulator, and
7 regulatees) enrolled multiple strategies (e.g., acquiescence, compromise, avoid, defiance and
8 manipulate) to pursuit their interests in the regulatory space of Pakistan.
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17 Third, the findings of this study also have practical and policy contributions. In contrast to
18 previous studies which suggest that transnational actors (e.g., Uddin and Hopper, 2001;
19 Siddiqui, 2010) and regulators in developed capital markets (Canning and O'Dwyer, 2013)
20 have more power in the regulatory process, the findings show that outcome of the regulatory
21 change process is the result of carefully crafted and conscious strategies of local actors. Family
22 businesses' resistance to CG codes was the result of scepticism of the usefulness or social
23 legitimacy of the codes, self-interests, and determination to retain control. Family businesses
24 also raised concerns about resource implications and inability to comply due to extenuating
25 circumstances. In line with Areneke, Yusuf et al. (2019), this study also reported that family
26 businesses resisted the CG codes because they were not overly dependent on equity financing
27 and there were no incentives or strict penalties. Moreover, family businesses lobbied to the
28 Parliamentary Senate Committee to influence and ultimately reduce the scope of the CG code
29 2012. In summary, family businesses have been on a continuous quest to shape CG codes in
30 their favour since the inception of the codes. The findings of this study suggested international
31 donor agencies and national policy maker to respect the national differences while introducing
32 and implementing laws and regulations. These differences will hurt any effort towards
33 globalisation.
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56 Lastly, the regulatory space concept has been especially used in accounting literature to
57 understand regulation development and implementation process in developed countries
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(Shapiro and Matson 2008, Canning and O'Dwyer 2013, Hazgui and Gendron 2015). None of the above studies focused on understanding the regulation development and implementation process in developing countries like Pakistan. This paper argues that regulatory space of developing countries is complex, dynamic and consists of multiple powerful and resourceful actors. This paper is one the first papers that applies the regulatory space concept to understand how multiple actors with different strategic positions, power and resources shape regulatory change by employing different strategies. The findings of this study suggest that the process of development and implementation of CG in Pakistan was political and reflected the relative power and organised interests of multiple actors.

Whilst many studies have prioritised the role of transnational actors in the diffusion of regulations, this study suggests that future research should pay due attention to the roles of local actors in the regulatory space and political, legal, economic and historical context. This study has highlighted the limited focus of previous studies which argue that most emerging economies adopted Anglo-American model of CG due to the pressures from donor agencies as a prerequisite for obtaining loans and grants. It suggests that the implementation of the CG codes was the product of history, culture and carefully crafted conscious strategies. Prior studies of diffusion of CG codes in emerging economies mainly focused on similarities between adopted codes and internationally accepted CG practices and argued that isomorphism does not affect the substance of the CG codes being adopted. This study argues that future research should focus on the substance of the codes to ascertain the extent to which these codes are in harmony with Anglo-American model or have been diluted.

Prior research initially has focused on dominant role of International Financial Agencies in diffusing international laws and regulations including CG regulations in developing countries. However, we believe that there is no substitute for focusing on country-by-country relation between International and local actors to understand the dynamics of regulatory processes. This

study encourages to future researches to expand the present paper's analytical focus by examining how international regulations are impacted by national actors, their formal or informal authority, and resources they processed.

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