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# Impact of Risk Management, Board Effectiveness and Innovation on Firm Performance- a Mediated and Moderated Model of Corporate Governance and Government Policy

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***Abstract***

*There has been resurgence in interest in the relationship between corporate governance and firm performance as a result of major corporate scandals and failures around the world. Businesses invest a lot of tangible and intangible resources to achieve greater performance and a competitive advantage in the current volatile market. Therefore, the present study explores the relationship between risk management, board effectiveness, innovation and corporate governance: Additionally, it looks into the mediating and moderating effects of corporate governance and government policy. The resource-based perspective theory and agency theory were mostly employed in this study to examine the association between corporate governance and firm performance. However, results indicate that A good connection exists between risk management, board effectiveness, innovation and corporate governance. Results reveal that corporate governance significantly mediated the relationship between risk management, board effectiveness, innovation, and the firm's performance. More importantly, government policy significantly moderated the relationship between corporate governance and firm's performance.*

**Keywords:** *Risk Management, Board Effectiveness, Innovation, Corporate Governance, Government Policy, Firm's Performance.*

## 1. Introduction and Background of the Study

One of the primary goals of organisational science is to identify the factors that influence business success (Khan et al., 2021). A lot of analyses have focused on how this concept is employed, owing to the importance of performance in our area. Each evaluation determined that major conceptual and empirical issues exist. In an oft-cited critique produced more than a quarter-century ago, (Venkatraman, Ramanujam, 1986) stated, "The handling of performance in research settings is possibly one of the thorniest challenges confronting the academic researcher today." (BW Keats, 1988) Responded a few years later with her own assessment: "The idea of company economic performance has had difficulty in organisational research because it has not been sufficiently developed conceptually, and insufficient attention has been devoted to measurement concerns."(Shenav, Y.; W. Shrum & S. Alon, 1994) classified

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performance utilisation as "usually problematic" in the 1990s, concluding that there is "no uniform methodology, that unambiguous definitions are absent, and that identical indications reflect opposing notions concurrently."(Rowe & Morrow, 1999) Summarised previous studies by saying, "Company performance remains a complicated problem at best."

Several prior observers assumed the existence of a generic firm performance notion and gave recommendations aimed at accurately capturing this general idea. Others have hinted or said that such a broad idea does not exist, leading to suggestions that emphasize the necessity for study to focus on specific areas of performance rather than the overall construct. Others in the discipline have assumed a very diverse concept that can yet be dealt comprehensively. They have suggested using divergent dimensions to generate a composite, proposing yet another variant of the concept (Miller et al., 2013).

Corporate governance has been a significant part of company management globally in recent years, with an increased emphasis on guaranteeing transparency, accountability, and ethical behavior inside corporations. The proper execution of corporate governance practices is critical for boosting company performance and lowering business risks. As a result, there is increased interest in researching the link between corporate governance and business success (Ali et al., 2021).

However, a particular role of risk management, board effectiveness, and innovation in corporate governance in Pakistan has not been extensively studied. While some study has been conducted on the link between corporate governance and business performance, there has been little research on the underlying processes that mediate and modulate this relationship. According to the literature, the efficacy of risk management and the board of directors are critical in strengthening corporate governance and business performance. Furthermore, innovation has been highlighted as a key driver of company success.

Currently, corporate governance is influenced by a British perspective (Spira and Page, 2003; Shah, Napier, & Holloway, 2017). In practice, many local company codes govern global companies. Ownership structures have a significant impact on governance frameworks (Kumar & Zattoni, 2016). A study and authors in India noted that agency problems arise in listed companies that do not have centralized ownership, with managers making decisions for their own sake at the expense of shareholders (Sridharan and Joshi, 2018). There are many corporate codes in practice that govern global companies. The authors found that external audit quality (BIG4) and audit committee size were significantly positively associated with firm performance (Rahman et al., 2019).

There are differing views on the clear definition of corporate governance, but in layman's terms, "corporate governance is the mode of management and governance of an entity"(Moore & Rebérioux, 2007) According to (Seidl, 2007), the term “corporate governance” has broad and narrow definitions. However, according to (La Porta, R., et al.,2000) “corporate governance is partly a set of mechanisms by which outside investors protect themselves from insiders”. They define insiders as managers and controlling shareholders. Most of the definitions set out in the Code relate corporate governance to "control" - the control of a company, its management, or the conduct of a company or management. However, Board setup plays a significant role in corporate governance (Zahoor et al., 2022). Another common theme in the definitions of corporate governance in these codes is the "oversight" of a company or management. In addition, many definitions link corporate governance to legal frameworks, rules and procedures, and private sector behavior.

Corporate governance is the processes and relationships administered by numerous groups to manage and run a business (Cadbury, 1992). Corporate governance must become a common debate in developing economies. It is generally believed that the implementation of corporate governance can improve firm performance and safeguard the interests of shareholders (Switzer & Tahaoglu, 2015). Therefore, corporate governance is necessary to alleviate the disagreement among stakeholders, especially shareholders and executives, thereby improving the performance of the company. Importantly, the implementation of corporate governance varies from country to country due to differences in economic, political, and other local structures (Chan & Cheung, 2012). (Miller and Breton-Miller 2006) found that companies perform better when their goal is to lead the business for the next generation; to achieve this vision, they must follow certain frameworks. For example, in developed countries, companies operate under a well-managed regulatory framework. However, in developing countries such as Pakistan, political instability and economic crisis have severely affected the implementation of such frameworks. Many businesses are beginning to implement corporate governance laws in their firms (Hussain & Safdar, 2018) but these firms either do not understand corporate governance principles or do not want to focus on the same principles (Jan, Lai, Draz, et al. 2021).

The SECP's corporate governance procedure guarantees that listed firms on the PSX execute business operations in accordance with the highest ethical standards in order to safeguard the interests of stakeholders Zahoor, S., & Yang, S. (2023). In Pakistan, shareholders demand high returns on their investments due to several possible doubts about changes in interest rates, and regular fluctuations in exchange rates. Government support for the economy and reduction of the trade deficit provides compelling incentives for foreign investors. The investor group dominates as the stock prices of most companies in Pakistan are highly volatile and rarely affected by trade. These companies are owned by families and management who work for the benefit of shareholders rather than stakeholders (Khan et al. 2021).

In the context of Pakistan, some previous studies such (Yasser et al., 2011; A. Khan & Awan, 2012; Akbar et al. 2016; Javaid, 2015) and (Awan & Jamali,2016) was not included realistic justification related to corporate governance and firm performance. Earlier (Ali et al. 2021) empirically examined the link between corporate governance structure and firm performance in Pakistan. This study differs from (Ali et al. 2021) in that it includes a different set of performance parameters including return on equity, net profit margin, sales growth, Tobin's Q, and dividend yield.

Further study is needed to understand the particular implications of risk management, board effectiveness, and innovation on corporate governance and business performance in the Pakistani environment, where there are distinct cultural, political, and economic elements. A major vacuum in the literature exists due to a dearth of study in this area, which hinders our knowledge of the elements that contribute to enhancing corporate governance and business performance in Pakistan. Furthermore, although corporate governance has grown in importance, the function of corporate governance in mediating the link between risk management, board effectiveness, innovation, and firm performance is not well understood. Previous research has demonstrated that corporate governance practices such as board of director composition and risk management methods might mitigate the association between these characteristics and business performance (Surjadi, A., et al; A. Khan & Awan, 2012; Akbar et al. 2016). As a result, understanding corporate governance's mediating role is critical for determining the exact processes behind the link between risk management, board

effectiveness, innovation, and company success in Pakistan.

Furthermore, in the Pakistani context, the moderating role of government policy on the link between risk management, board effectiveness, innovation, and business success has not been properly investigated. Government laws and regulations shape the business environment and may have an impact on the adoption of corporate governance practices. Financial reporting and disclosure regulations, openness, and accountability, for example, may all have an influence on the success of corporate governance practices. Understanding the moderating influence of government policy is thus critical for identifying the precise aspects that lead to better corporate governance and business performance in Pakistan. There is a significant gap in the literature regarding the effects of risk management, board effectiveness, and innovation on corporate governance, as well as the mediating role of corporate governance and the moderating role of government policy on firm performance in the context of Pakistan. More study is needed to investigate these associations and determine the underlying processes that underpin them. This study has the potential to improve corporate governance practices and business performance in Pakistan, as well as give significant insights for policymakers, practitioners, and academics.

Majority of European countries have employed the corporate governance structure since its inception and now they are well ahead in implementation of corporate governance than developing countries and emerging economies. Pakistan was quite late in the adoption of corporate governance strategies and principles Akbar, A. (2014). Given the mediating role of corporate governance and the moderating role of government policy for firm performance, the choice of Pakistan as the research context for studying the effects of risk management, board effectiveness, and innovation on corporate governance involves strong justification. Pakistan has distinct traits and specificities that give useful insights not easily available in other situations. Researchers may acquire a better understanding of how these elements interact and impact company performance in Pakistan by researching the country's distinct socioeconomic, cultural, and regulatory settings.

A variety of diverse variables characterise Pakistan's business climate, including political dynamics, cultural norms, market structure, and the preponderance of family-owned firms. These variables have the ability to significantly influence the success of risk management practises, board governance, and innovation projects. For example, the effect of cultural values on decision-making processes, the impact of political stability on risk appetite, or the role of government policies in encouraging or inhibiting innovation may differ in Pakistan from other nations. By doing research in this setting, the authors may unearth insights unique to Pakistan while also contributing to scholarly knowledge of corporate governance in developing countries.

To guarantee that the study takes into consideration the nuances of the Pakistani business environment, the authors should choose a research design and methodology that captures the complexities of the local business environment. This might include conducting surveys to get first-hand knowledge of Pakistan's difficulties and potential in risk management, board effectiveness, innovation, and corporate governance. By combining various viewpoints, the research can give a thorough analysis that takes into account the particular features of the Pakistani setting and delivers context-specific suggestions for increasing business performance. Furthermore, the research should analyse and interpret data in light of the country's legislative frameworks, cultural norms, and economic situations, ensuring that the conclusions are anchored in Pakistan's distinct business environment.

This paper identifies several factors that represent good governance (as expected) associated with good performance that has been rarely studied before, providing a new focus for those seeking to link good governance to firm performance. Although corporate governance and firm performance were discussed in many ways around the world Pakistan is under-researched. Therefore, the goal of this study is to fill this gap in the literature and determine the relationship between risk management, board effectiveness, innovation and corporate governance: It also investigates the mediating and moderating role of corporate governance and government policy. The current study thus addresses the intriguing question of in what is the relationship between risk management, board effectiveness, and innovation and corporate governance and how mediating and moderating roles of corporate governance and government policy can reduce failure and improve firm performance on a dynamic basis.

However, this article is organized as follows: a relevant literature review and hypothesis development are provided in Section 2; Section 3 explains the data and research methods used to examine corporate governance and performance; Section 4 includes statistics Analysis; Section 5 specifies discusses the findings, and finally, Section 6 describes conclusion.
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## 2. Literature Review and Hypothesis Development

### 2.1 Conceptual Model

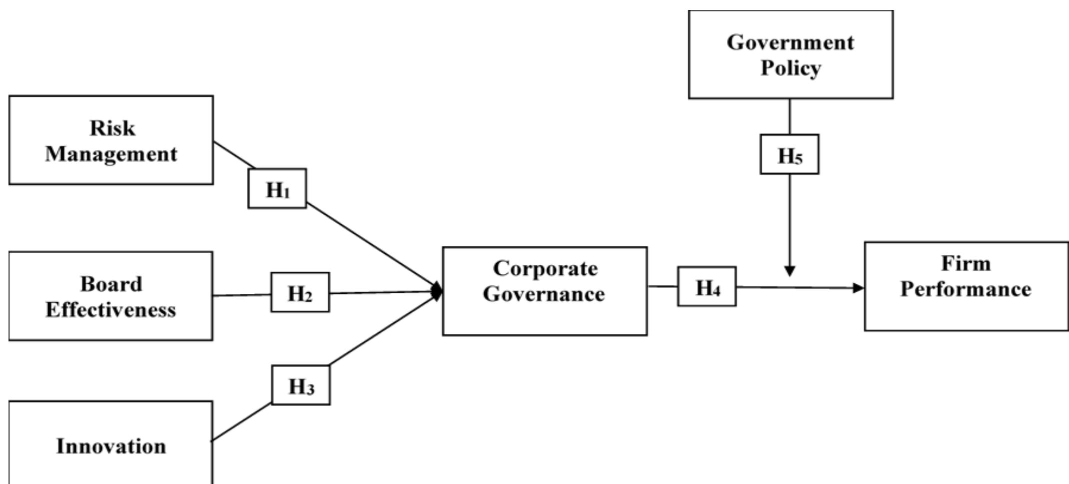


**Figure 1:** A Mediated & Moderated Conceptual Model of Firm Performanc Own Developed.

### 2.2 Corporate Governance Philosophy

Corporate governance has been a hot issue in financial literature since some major financial manipulation and corporate frauds were observed due to lack of disclosure and poor audit and governing structure in large firms Akbar, A. (2015). Although the concept of corporate governance has attracted the attention of scholars but it has not yet received a widely accepted definition. It is defined in many ways, highlighting different aspects. Regarding different

definitions, scholars and researchers divide corporate governance into narrow and broad. The tunnel vision is based on shareholder satisfaction. A broader definition extends the goals of corporate governance to the satisfaction of stakeholders (i.e. suppliers, employees and governments). I will dig into this more deeply after solving the problem in firm's competitive view. The concept's definition mostly pertains to the involved theoretical perspective Gillan's (2006). Just for a instance, Corporate governance can be looked at from that side of the shareholder, which includes the strategies used to maximise owners' wealth, or from the perspective of the organisation, which includes the governing mechanisms to regulate and sustain company operations Raghuram G. Rajan & Luigi Zingales, (2000). The definition of Corporate governance is "the mechanism through which companies are managed and administrated" supplied by (Cadbury, 2000) supports the latter position. This broad definition places little emphasis on who is accountable for each function, on whose behalf, or what the end goal should be while leading the organization. Shleifer, Andrei, and Robert W Vishny. (1997) says that corporate governance is "the way in which a firm's financing providers ensure themselves an outcome on investment". This definition assigns governance to the primary role of mediating between financial providers (i.e. shareholders and stakeholders) and employers (i.e. managers) and specifies that, when resource owners require management control, they must ensure that their activities access to rewards. In particular, investors should be safeguarded from the adverse consequences of conflicting interests of managers hired to act on behalf of shareholders but with an incentive to act greedily. This definition is much smaller than the previous and incorporates one of the components customarily connected with corporate administration, that of intervention among administrators and investors. Administrators should gauge the expenses of checking and controlling specialists (organization costs) against the costs they could bring about from negative administrative activities without any powerful observing and control.

### 2.3 Contrasting Views on the Nature of the Firm

The diversity of opinions on the nature and purposes of businesses has led to absence of agreement about corporate governance mechanisms. Corporate governance boundaries can differ greatly depending on the approach used to study organizations. In reality, given that corporate governance has to do with how businesses are managed and controlled, it is crucial to specify the goals of a company, the issues that must be given top priority while operating a business, and the goals that must be obtained for the organization to perform its function. Addressing this, there are two angles from which we may see a corporation. The first is the shareholder perspective (Ferrero et al., 2014), which places emphasis on the role of the shareholder and declares that the company's primary goal is to maximize profits to help its investors. The alternative perspective, called stakeholder point of view, adopts a larger perspective of the company and takes into account the goals of different subjects who have an interest in the business, such as every one of the partners, which incorporates providers, laborers, networks, and so on.

### 2.4 Agency Theory

The current study uses agency theory as the main paradigm to explore factors effecting firm's performance and the mediating role of corporate governance. From this perspective, corporate governance deals with maximizing shareholder esteem by decreasing organizational problems. This study refers a strong hypothetical reason for making sense of the relationship and proposing answers for agency problems: when agency problems are mitigated, agency conflicts decrease and shareholder returns increase, thereby improving firm performance Delves, D. and B. Patrick, (2010). An agency issue, or principal-agent problem, is a conflict of interest

inherent in any relationship in which one party is expected to act in the best interest of the other, are also given certain decision-making powers (KM Eisenhardt • 1989) one of the most blatant examples is the relationship between shareholders and managers. Potential conflicts of interest between principals (in this case shareholder) and agents can result in expensive inefficiencies that adversely impact the welfare of the principal. The interests of their counterparties must be coordinated because agents, who are people who are naturally motivated to maximize their own welfare rather than the welfare of the principal, require control and incentive mechanisms. (A Agrawal • 1996). Agency issues in contemporary businesses are caused by the separation of ownership (represented by shareholders who provide the firm with funding) and control (i.e., management who employ that funding). An information imbalance in their relationship is what distinguishes it: managers are better knowledgeable about the capital allocation strategy that produces the greatest results for shareholders than they do with their vast knowledge and capabilities and privileged access to corporate information (Mizruchi, 2004).

## 2.5 Resource-Based View of Corporate and Firm Performance

Above mentioned figure 1(Author own developed) shows the relationship between all variables. As previous studies, which emphasized that the external environment determines the performance of industrial organizations (Ferrero et al., 2014), (Ullah and Nasim 2021) resource-based theories have been established to support the firm's internal proficiencies and firm performance. The firm's internal capabilities and competitiveness can be developed to gain a firm competitive advantage (Nagendrakumar et al., 2022). A corporate resource is valuable if its intrinsic strategy allows it to exploit opportunities or eliminate threats" in the corporate environment (Yasser et al., 2011). However, resources cannot be considered in isolation from the external environment. Valuable resources in one form of industrial organization may be ineffective in another Gillan's (2006). (Nagendrakumar et al., 2022) defines resources in terms of tangible and intangible assets. Financial reserves and material possessions like stockpiles of machinery, equipment, and raw materials are examples of tangible assets /resources. Reputation, technology, and human resources—including organisational culture, employee learning and development, and their dedication and loyalty—are examples of intangible assets/resources. Although corporate governance by itself may not provide a competitive advantage for the firm, failing to follow corporate governance standards might result in the company not being able to obtain the full benefit from its resources (Khan et al. 2021). Governance structures will mean how rents generated by scarce, precious, and unparalleled resources are appropriated.

### 2.6 Risk Management and Corporate Governance

Risk management can be defined as "the culture, processes, and structures designed to exploit potential opportunities while managing potential adverse impacts" (Australian Securities Exchange Corporate Governance Committee [ASXCGC], 2007:32). (Kiel & Nicholson, 2002) discuss the role of the board as identified by Mintzberg, Bosch, and others, and show that risk management oversight is the latest addition to the board's defined role. Of the eight definitions proposed, only one is a post-2000 definition, and only two references explicitly state that risk is a board concern. (Kiel & Nicholson, 2002) also suggested that the role of the board should be expanded to include "an overview of risk management policy, practice, and performance". This is important role of the board. (Shleifer, Andrei, and Robert W Vishny. 1997) argues that "the entire field of contemporary corporate governance depends on the complexity of risk and

the board's understanding of risk".

(KM Eisenhardt • 1989),(Ellul and Yerramilli, 2013)examine whether strong and independent risk management can explain cross-sectional differences in risk-taking behaviour among US banks 21 Null hypotheses based on (BW Keats • 1988),(Surjadi, A., Vania, I., Wijantini, W., & Yuliati, R. (2018),(Cain et al. (2017).A breakdown in banks' internal risk controls will make it difficult to limit executives from taking excessive risk (or taking on large amounts of tail risk), which will cause significant damage to the institution's financial health when it materializes. To this end, the authors construct a risk management index to measure the strength and independence of the U.S. risk management function. The first set of results relates to the determinants of the risk management function, in particular its relationship to other governance mechanisms. Firms that face greater risk (those with lower capital ratios, larger derivatives trading operations, and larger shares of non-banking revenue) have implemented stronger risk management functions. Importantly, companies whose CEO compensation contracts lead to greater risk-taking also have stronger risk management, just as those with better corporate governance, more independent boards, and less entrenched management also have stronger risk management. These results are more in line with the view that corporate governance structures and risk management functions are complementary rather than substitutes (A Agrawal • 1996), (Hair et al. 2019). Thus, we proposed that;

**H1:** *Risk Management has a positive effect on corporate governance.*

### 2.7 Board Effective Based on Corporate Governance

According to the literature, there are several methods to describe the idea of validity because there are various backgrounds and study goals of scholars (Khan et al., 2020). Hackman and Morris (1975established three criteria for team effectiveness: team performance, the team's propensity for long-term cooperation, and the extent to which members' individual needs are addressed. The traditional "task" (creating teams) and "maintenance" (attitude) criteria, which are frequently applied in working group research, are included in this definition by (J Stein • 1988), (Jensen, M.C. (1993), (Surjadi, A., et al.), (Lemieux-Charles et al. 2002). Board effectiveness, when applied to the context of boards, is largely connected to "task" results and is attained by performing role sets (Nemoto, T., & Beglar, D. (2014). However in the literary community, the latter is still hotly contested. In general, a role set is not considered an active integrated set. In contrast, the role of the board has been conceptualized as multiple, and in some cases contradictory, based on different theoretical assumptions (Raghuram G. Rajan & Luigi Zingales, 2000), (CM Daily • 1999) Generally Three jobs with widely defined definitions are acknowledged and used: control, service, and strategic roles. (G Maassen • 1999), (Yasser, et al. (2011). There is strong empirical support for the function boards play in oversight in the literature. Lliterature reveals some determinants of board elections. Nonethelessit may be claimed that there isn't a straightforward linear link between board efficiency and work performance. However, The board of management is the leading body of a corporation, accountable for overseeing the company's running and making strategic choices that align with the interests of shareholders and other investors (Zahoor, S., & Tian, Y. (2023). A tendency known as "groupthink" has been linked to high levels of board effectiveness, which can result in pressure to follow group norms and reach consensus at the expense of critical thinking and challenging presumptions (Ellul and Yerramilli, 2013). Furthermore, civility and politeness are valued more than critical monitoring and excellent strategic decision-making, boards might be susceptible to the risks of groupthink. (Joo & Min, 2022). In this regard, board members receive information selectively, neglect to consider alternatives, and are either critical of themselves or

others. (Khan, W., et al.,2013). Based on these assumptions, Author suggested the below mentioned proposition:

**H2:** *Board effectiveness has a positive effect on corporate governance*

### 2.8 Innovation and Corporate Governance

(J Stein • 1988) showed that the threat of acquisition can induce managers to behave myopically. (G MANSO • 2011) Showed that compensation contracts that provide innovation incentives have the dual characteristics of short-term tolerance for failure and long-term performance rewards (Miller et al., 2013) Found that higher institutional ownership leads to greater innovation. Thus, existing research examines how innovation is influenced by internal mechanisms (eg, management compensation contracts) or external mechanisms (eg, acquisition pressure). Innovation may be driven by interactions between corporate control, contracts, and private interest markets (Tansey, 2007). By integrating external and internal governance mechanisms, we show how the interplay between acquisition premiums and private control benefits leads to new projections of innovation as a U-shaped change with acquisition pressure ( A. Khan & Awan, 2012),(Bicen et al. 2021).

Innovation is still a topic of many prior studies, but Gribiche's technological knowledge production function, or so-called "technological capital," which is dependent on the spending of R&D firms, is the first mention in the economic literature related to the econometric analysis of R&D activities. The innovation process is complex and interactive, and although while this function does not account for all of its components, it continues to be the focus of a lot of current study. Innovation investment in the form of R&D activities is one of the factors affecting firm profitability (Wei & Lin., 2001). Innovation is a key determinant of corporate profitability ( Akbar et al. (2016), (Mishra and Yadav, 2021), (Rahman et al.,2019).On the other hand, high growth and profitability encourage innovation in the form of higher investment in innovation (Cadbury, 1992). Advanced corporate governance leads to higher free cash flow and gives managers discretion to reinvest funds, indulging in earnings management rather than distribution as dividends ( R Mundry • 1998),(Nagendrakumar et al., 2022). Therefore, there is concrete evidence for the possibility of a bidirectional causal relationship between innovation investment and corporate governance, as seen in both developed and developing economies, and thus to test it in the context of Pakistan, the following assumptions need to be tested.

**H3:** *Innovation has a positive effect on corporate governance*

### 2.9 The Mediate Role of Corporate Governance and Firm Performance

The performance of a corporation is believed to be impacted by corporate governance since it enables stakeholders to identify elements that affect performance and utilise these characteristics as indications of a firm's success or failure. In this context (Seidl, 2007) determined that corporate governance significantly enhanced business performance after examining the link between corporate governance and firm performance. Instead, (La Porta, R., et al.,2000) explored link among corporate governance and corporate performance and concluded that there is a positive link between these two variables. However, Jan, Lai, Draz, et al. (2021) studied the effect of corporate governance on company performance and found that there is a strong correlation between corporate governance and performance. In addition, (Miller and Breton-Miller 2006) studied the effect of sound corporate governance on the

performance of publicly traded corporations and discovered that effective corporate governance improves company performance. Financial performance benefits from good company governance. (Kumar & Zattoni, 2016) discovered that institutional regulation significantly and favourably affects business performance and governance. Corporate performance may be impacted by an increase in best practises for corporate governance. As a result, given the data above, there is still debate over the connection between corporate governance and business success.

Corporate performance and corporate governance are significantly positively correlated. The same outcomes are seen when examining the link between corporate governance and business performance interactions Tonglet et al. (2004). While there is a large positive relationship between ownership concentration and corporate governance and corporate performance, there is also a significant positive relationship between management shareholding and corporate governance. Additionally, there is a large and positive correlation between the number of corporate governance efforts and corporate governance practises. (Pergelova and Angulo-Ruiz, 2014). As a mediating effect, financial performance and business performance are both benefited by strong corporate governance. (Mahrani, M. and Soewarno, N. 2018). Furthermore, government policies have a decisive encourage and have an impact on corporate governance practises North, D. C. (1990). Therefore, we proposed that:

**H4:** *Corporate governance has a positive effect on the firm performance*

## 2.10 The Moderating Role of Government Policy

Government policies control the economy by involving technology and consumer stability, thereby improving firm performance Yasser, et al. (2011). Their role is to improve business performance. This is related to training, which has a significant impact on improving business performance (Roxas and Coetzer, 2012). Self-government actively supports the development of SMEs by providing education, training, and market information, thereby improving business performance (Roxas and Coetzer, 2012). These policies collaborate technology between large and small companies to attract customers. In turn, they can increase sales and product innovation (Spira and Page, 2003). The role of the government is to improve the innovative behaviour of small businesses, especially in the form of assistance such as training, technology, market information, and funding (Roxas and Coetzer, 2012),(Ismanu & Kusmintarti, 2020) .

Contemporary forms of institutional theory explain that institutions act as "artificially designed constraints that shape human interactions" to reduce uncertainty in economic transactions by creating efficient, predictable, and stable exchange structures (Nicholson & Kiel, 2004). Incentives and restrictions for economic actors are provided through institutions, which are "game rules or artificially designed structures." (Nicholson & Kiel, 2004). The main The purpose of institutions is to lessen the risk and uncertainty that come with political unpredictability, societal upheaval, government regulations, and meddling in commercial operations. (Nicholson & Kiel, 2004).

One of the most crucial elements of the formal institutional setting is the rule of law. It refers to the basic infrastructure and services, laws, rules, policies, and programmes of the government that support the complete operation of a market economy. The strength of the rule of law establishes to which the legal rights of local populations are protected and enforced, including corporate entities such as commercial companies (Agyemang-Mintah, 2016). A place with a strong rule of law refers to a place with a mature system of politics, a robust judicial system, well-defined succession procedures, and citizens who are prepared to accept the

existing order, enact laws, and resolve conflicts (Agyemang-Mintah, 2016). The rule of law also helps ensure financial stability by making sure that property rights are upheld (Kashyap, Rajan and Stein 2008) and transactional trust (Sridharan and Joshi, 2018) and financial stability (FU Khan • 2022). Government policy controls by using technology and ensuring consumer stability, thereby improving firm performance (Switzer & Tahaoglu, 2015).

## 3. Research Methodology

A quantitative research design was employed to examine determining factors affecting firm's performance: a mediation and moderation function of corporate governance & government policy in Pakistan. Quantitative research involves the collection and analysis of numerical data to identify patterns, trends, and statistical associations. By creating numerical data or data that may be transformed into usable statistics, this technique is used to evaluate issue statements. Views, opinions, and other defined variables are measured using it, and findings from larger sample groups are generalised using it. Less commonly, quantitative techniques use observation or analysis to determine whether the research object and question are appropriate or not (R Watson • 2015).

### 3.1 Sampling Selection and Data Collection Tools

The sample selection for this quantitative study aimed to represent a diverse range of firms operating in Pakistan. A stratified sampling technique was utilized to ensure the inclusion of firms from various industries and sectors. The selection of samples and data focused on large industrial units, including 72 textile units, 75 engineering units, 88 chemical and food processing units, and 115 samples from various other industries such as hosiery, carpet and rugs, nawar and lace, printing and publishing, and medicinal products. However, the respondents were selected from the top management, middle and lower management. These samples were chosen because they comprised individuals who possessed relevant information. This approach allowed for the selection of a sample that closely reflected the population of firms in Pakistan. Within each industry stratum, using a random sample approach, the study's target companies were chosen. During sample selection procedure, the practical feasibility and availability of respondents were also taken into account.

The selection process did not raise any particular concerns for the following reasons. The respondents included in the study were individuals from the target field who had previous and current experience working within the respective firms. This approach, also known as purposeful or judgmental sampling, guaranteed that the survey only contained responders who could give accurate and useful information.

However, Data collection in this study relied on both primary and secondary sources. Secondary data, such as financial reports, industry databases, and government records, were collected to obtain information on firm performance indicators, corporate governance practices, and government policies. Primary data were gathered through structured surveys-based questionnaire. The surveys were designed to capture relevant information regarding the determinants of firm performance, corporate governance mechanisms, and government policies.

To collect data from the respondents, a survey method was employed, and questionnaires were distributed with the assistance of field assistants (Mizruchi, 2004). The selected respondents were considered key informants due to their extensive knowledge about the activities of the firms, enabling them to provide accurate responses to the survey questions (SA Zahra • 1995).

According to those who answered during the first visit (early responders) and those who responded on the third appointment (late responders), respondents were split into two groups. The survey instrument was used to gather the data was meticulously created to guarantee validity and reliability. It comprised both closed-ended and Likert scale questions, enabling the evaluation of variables in terms of numbers. Prior to the actual data gathering procedure, the questionnaire underwent pre-testing to determine its clarity, comprehensibility, and relevancy. Various tactics were used to improve the response rate and quality of the data that was gathered. Personalised invitations to take the survey, reassurances of confidentiality, and follow-up reminders were among them. To suit the respondents' interests and convenience, data collecting was done in a variety of ways, including online surveys, phone interviews, and in-person interviews. According to Miller and Breton-Miller (2006), individuals who answered following the third follow-up were most comparable to those who did not. All scales underwent reliability and validity assessments to evaluate the internal consistency of the variables. Cronbach's alpha was used to assess the level of internal consistency, and the results are shown in Table 2. Partial least squares structural equation modelling was employed for the analysis. Overall, these methods and procedures were implemented to ensure the collection of reliable and valid data, while considering the specific objectives and requirements of the study.

### 3.2 Ethical Considerations

There are a number of ethical issues that researchers must take into account while performing a quantitative study to identify the elements influencing a firm's success. These factors centre on protecting participants' rights and well-being, preserving the honesty and integrity of the study process, and reducing possible damage or conflicts of interest. The following ethical questions are especially pertinent in the context of this research, which explores the mediating and moderating functions of corporate governance and government policy.

The first ethical standard that was respected throughout the study is informed consent. Participants received complete information about the study's nature and objectives, possible risks and rewards, and their rights as research subjects. Participants in this quantitative research were included workers, managers, and stakeholders from different organisations. To maintain their autonomy and safeguard their privacy, we obtained verbal informed permission of the respondents before collecting any data.

Second, the security and privacy of data are crucial. All data was handled by researchers in a way that protects the confidentiality and identity of participants. Establishing suitable security measures is essential to preserve sensitive data and stop unauthorised access.

Additionally, it is important for researchers to retain neutrality and steer clear of conflicts of interest. Any possible biases or conflicts of interest that could affect how the research is planned, carried out, or how the findings are interpreted has also been acknowledged and resolved.

The research's possible effects on the participating companies and their stakeholders should also be carefully evaluated. It is crucial to limit any damage or unfavourable effects that might result from the investigation. Researchers should weigh the possible advantages and hazards of involvement and take the appropriate precautions to minimise any negative consequences. If the report recommends changes to government or business policies, they should be founded on thorough research and work to improve both without harming anybody.

### 3.3 Measures of the Items

This study used a well-established and widely used scale. To measure risk management, four items

were taken from (MARUHUN, ABDULLAH, & ATAN.,2018). For the assessment of board effectiveness, three item scales were obtained (Khan et al. 2021). The innovation is measured with the four-item scale taken from (Cadbury, 2000). Additionally, corporate governance is measured using four items Cain et al. (2017). Three government policies were adopted at the same time. A firm's performance is measured using four items obtained (Hair et al., 2014). The questionnaire used a 5-point Likert scale ranging from 1 "strongly disagree" to 5 "strongly agree". The scale asked respondents to indicate whether they strongly disagree or agree with a range of statements about a particular topic. Also, the Likert scale is an ordered scale from which respondents choose the option that best supports their point of view Tonglet et al. (2004). It can measure someone's attitude by measuring the degree to which they agree or disagree with a particular question or statement. Adopting a five-point Likert scale ranging from "strongly agree" to "strongly disagree" researchers suggest reducing respondents' frustration and improving response rates and quality of responses Nemoto, T., & Beglar, D. (2014).

## 4. Analysis/Results

### 4.1 Respondent's Description

**Table 1:** Descriptive statistics and Respondent's Characteristics.

| | | Frequency | Percentage |
|---|---|---|---|
| Gender | | | |
| | Male | 210 | 60% |
| | Female | 140 | 40% |
| Age | | | |
| | 21–30 | 70 | 20% |
| | 31–40 | 130 | 37.3% |
| | 41–50 | 110 | 31.2% |
| | 51–60 | 40 | 11.5% |
| Managerial Level | | | |
| | Top Management | 120 | 34.20% |
| | Middle Management | 90 | 25.71% |
| | Lower Management | 90 | 25.71% |
| | Retired | 50 | 14.30% |
| Education | | | |
| | Bachelors | 76 | 21.72% |
| | Masters | 239 | 68.28% |
| | Ph.D. | 35 | 10% |
| Experience | | | |
| | 1–5 | 60 | 17.14% |
| | 6–10 | 88 | 25.14% |
| | 11–15 | 110 | 31.42% |
| | 16–20 | 92 | 26.30% |

### 4.2 Partial Least Squares Structural Equation Modelling (PLS-PM, PLS-SEM)

Partial Least Squares Path Modelling or Partial Least Squares Structural Equation Modelling (PLS-PM, PLS-SEM) is a structural equation modelling approach that allows the estimation of complex causal relationships in path models with latent variables (Wei & Lin., 2001). This study's findings are supported by PLS-SEM 3.2.7. The general appeal and applicability of the software's application are related to user preference for utilising it (SA Zahra, 1995). Also, it involves comprehensive information about variables such as (Ismanu & Kusmintarti, 2020).

PLS-SEM analysis begins with the evaluation of the outer model (or measurement model). The objective is to assess how well the item (questions) rely on the hypothetically-defined construct.

Analysing the outer model entails identifying unidirectional predictive relationships between each latent construct associated with the observed indicator (Hair et al., 2011). In PLS-SEM, there are typically two distinct measures of indicators, reflective and formative outer model (Hair et al., 2012). Examining the reliabilities of individual items (indicator reliability), the reliabilities of each latent variable, internal consistency (Cronbach alpha and composite reliability), construct validity (loading and cross-loading), convergent validity (average variance extracted, (AVE)), and discriminant validity (Fornell-Larcker criterion, cross loading, HTMT criterion) comprise the evaluation of reflective outer model (Hair et al., 2014).

Therefore, to evaluate the results, a two-way approach was employed in the analysis section, encompassing the assessment of both the measurement model and the structural model.

### 4.3 Evaluation of Measurement Model

According to (SA Zahra • 1995) this model has been used to evaluate the reliability, consistency, and validity of the structure. The evaluation of the measurement model included external loading factors for individual reliability, composite reliability (CR) for evaluating internal consistency, mean-variance extraction (AVE) for evaluating convergent validity, and Fornell-A for evaluating discriminant validity. Larker standard. Regarding single item reliability (SA Zahra • 1995) it is recommended that factor loading values must be ≥0.7 (see Table 2).

#### 4.3.1 Reliability of the Item

A critical criterion in this evaluation is the standardized loadings, which should ideally have a minimum value of 0.708. By meeting or exceeding this threshold, the standardized loadings demonstrate a strong and meaningful relationship between the indicators and the construct they represent (Chin, 1998). This indicates that the measurement items effectively capture the essence of the construct and provide reliable and valid measurement outcomes. By considering this criterion, researchers can ensure the reliability and robustness of their measurement models, contributing to the overall quality of their research findings Cain et al. (2017). The analysis presented in Table 1 reveals that all loading items in the study demonstrate threshold values. Each indicator exhibits significant loadings, indicating a strong relationship with its respective latent construct. These results indicate that the measurement items effectively capture and represent the underlying dimensions of the constructs under investigation. The observed threshold values further affirm the robustness and reliability of the measurement model employed in the study. By meeting the threshold criteria, the loading items provide solid evidence of the construct's validity and contribute to the overall quality and integrity of the research findings

**Table 2:** Indicator loadings.

| Constructs | Loadings | Items |
|---|---|---|
| Risk Management (RM) | RM 1 | 0.884 |
| | RM 2 | 0.848 |
| | RM 3 | 0.806 |
| | RM 4 | 0.910 |
| Board effectiveness | BE 1 | 0.895 |
| (BE) | BE 2 | 0.842 |
| | BE 3 | 0.826 |
| | BE 4 | 0.883 |
| Innovation | EC1 | 0.713 |
| (INN) | EC2 | 0.692 |
| | EC3 | 0.828 |

| | | |
|---|---|---|
| | EC4 | 0.893 |
| Corporate Governance | GP1 | 0.946 |
| (CG) | GP 2 | 0.913 |
| Government Policy (GP) | GP 3 | 0.878 |
| | GP4 | 0.864 |
| Firm Performance | FP 1 | 0.867 |
| (FP) | FP 2 | 0.865 |
| | FP 3 | 0.886 |
| | FP4 | 0.826 |

### 4.3.2 Internal Consistency Reliability

Cronbach's alpha and composite reliability are the most widely used techniques for assessing internal consistency because they assess reliability by looking at how the variables in the observed items interact. According to the degree of individual dependability of each indicator, the values in PLS-SEM are organized (Hair et al., 2014). According to (Hair et al., 2014) a higher number indicates more reliability; the values range from 0 to 1. In more advanced phases of study, the composite reliability/Cronbach alpha must be better than 0.70, even if values between 0.60 and 0.70 are acceptable for exploratory research (Chin, 1998). However, a score of 0.90 or higher is not desired (Nunnally, Bernstein, and Consumption 1994), and 0.95 or above is also not ideal. The resulting values, which fall between 0.742 and 0.940, show how consistent and reliable the measurement items are. This shows that the items accurately and consistently assess the targeted latent constructs, leading to trustworthy findings. The excellent dependability levels found for each item provide people trust in the measuring instrument's accuracy and precision. These analyses emphasize the dependability of the data obtained and the soundness of the measurement model, which increases the overall validity of the study's findings. (Referred to Table 3)

Furthermore, Cronbach's alpha (CA), is recommended that it must be ≥ 0.7 (see Table 3). Related to the reliability of internal consistency, CR should be ≥ 0.7 (see Table 3). Furthermore, in relation to convergent validity, it is recommended that AVE must be ≥0.5 [51] (see Table 3). For the purpose of ensuring multicollinearity and data-related aberrations, a second test, the inner VIF, was used. The variance inflation factor (VIF) was also used to gauge the degree of multicollinearity among a group of variables used in multiple regressions. The VIF for a regression model variable is mathematically equivalent to the ratio of the variance of the whole model to the variance of a model with only that one independent variable. There is no multicollinearity across components if the VIF is equal to 1, but if the VIF is more than 1, the predictors could be somewhat linked. When the VIF is between 5 and 10, there is a significant association that might be dangerous. T. (Roxas and Coetzer, 2012). Hence, Table 3 shows that common method bias is not problematic, as we thus estimated that the VIF of our variables VIF values were between 1.762 and 2.213 are less than the acceptable threshold value of 3. There is hence no multicollinearity concern.

### 4.3.3 Valuation of the Convergent Validity

Convergent validity assessment in the present study was conducted by examining the average variance extracted (AVE) values, following the guideline that suggests a threshold of 0.5 or higher (Chin, 1998). Table 3's AVE values, which range from 0.568 to 0.801, show that this study falls within an acceptable range for assessing convergent validity. Consequently, the findings demonstrate that the measurement model employed in the study exhibited satisfactory convergent validity.

**Table 3:** Measurement Model.

| Constructs | CA | CR | AVE | Inner VIF | f² |
|---|---|---|---|---|---|
| Risk Management (RM) | 0.918 | 0.936 | 0.746 | 2.321 | 0.112 |
| Board effectiveness (BE) | 0.940 | 0.925 | 0.732 | 1.850 | 0.253 |
| Innovation (INN) | 0.742 | 0.807 | 0.568 | 1.873 | 0.081 |
| Corporate Governance (CG) | 0.906 | 0.941 | 0.801 | 2.213 | 0.021 |
| Government Policy (GP) | 0.805 | 0.795 | 0.661 | 1.762 | 0.106 |
| Firm Performance (FP) | 0.843 | 0.905 | 0.761 | 1.762 | 0.104 |

### 4.3.4 Valuation of the Discriminant Validity (Fornell and Larcker Criterion)

Discriminant validity was established to determine the uniqueness of the constructs under study. It shows that the construct under study has its identity and is not highly correlated with other constructs in the study. Discriminant validity in SMART-PLS was established using three different techniques: Fornell and Larcker Criterion, Cross Loadings, and Heterotrait-Monotrait (HTMT) Ratio (Hair et al., 2012). Furthermore, discriminant validity refers to the degree of separation of each construct from other latent variables in the model (Khan et al., 2020). In addition, to construct discriminant validity, the "square root of the AVE for each construct should be greater than all correlation among constructs and other constructs in model to meet Fornell-Larcker criterion" (SA Zahra • 1995) see Table 4.

**Table 4:** Discriminant validity using Fornell-Larcker Criterion.

| Construct | RM | BE | INN | CG | GF | FP |
|---|---|---|---|---|---|---|
| Risk Management (RM | 0.863 | | | | | |
| Board effectiveness (BE) | 0.554 | 0.855 | | | | |
| Innovation (INN) | 0.646 | 0.663 | 0.753 | | | |
| Corporate Governance (GE) | 0.422 | 0.502 | 0.4.15 | 0.894 | | |
| Government Policy (GP) | 0.598 | 0.53 | 0.685 | 0.552 | 0.813 | |
| Firm performance (FP) | 0.523 | 0.57 | 0.585 | 0.532 | 0.624 | 0.872 |

**Note:** Risk Management (RM). Board Effectiveness (BE). Innovation (INN). Corporate Governance (CG). Firm's Performance (FP).

### 4.3.5 Valuation of The Discriminant Validity (Heterotrait-Monotrait Ratio (HTMT))

The HTMT ratio has been widely used and suggested for assessing discriminant validity and is considered a superior criterion relative to the Fornell-Larker criterion. It refers to "the mean value of the item correlations across constructs relative to the (geometric) mean of the average correlations for the items measuring the same construct" Hair et al. (2019). Discriminant validity issues occur when the HTMT value of the construct exceeds 0.85. Hair et al. (2019) stated that it is used to evidence the issues related to multicollinearity. Hence, the current study used the HTMT criterion, to ensure data is free from multicollinearity issues. Recently Hair et al. (2019) proposed that the values of the constructs should be less than HTMT0.85. Table 5 specifies that the maximum value obtained is 0.82, which is less than the acceptable threshold of 0.85.

**Table 5:** Discriminant validity using HTMT Criterion.

| Construct | RM | BE | INN | CG | GF | FP |
|---|---|---|---|---|---|---|
| Risk Management (RM | | | | | | |
| Board effectiveness (BE) | 0.596 | | | | | |
| Innovation (INN) | 0.729 | 0.76 | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Corporate Governance (CG) | 0.442 | 0.464 | 0.486 | | |
| Government Policy (GP) | 0.782 | 0.715 | 0.82 | 0.548 | |
| Firm performance (FP) | 0.652 | 0.586 | 0.791 | 0.604 | 0.669 |

## 4.4 Measurement of Structural Model

Partial Least Squares Path Modelling or Partial Least Squares Structural Equation Modelling (PLS-SEM) is a structural equation modelling approach that allows the estimation of complex causal relationships in path models with latent variables (Hair et al., 2021).
In this study, we evaluated structural models using the 5000 bootstrap resampling technique. We assessed cross-validation redundancy (Q2) for model fit., which is the predictive accuracy of the model by the $R^2$ value. All endogenous structures have $Q^2$ values above 0, representing the predictive relevance of the model. In addition, the $R^2$ value shows the variance explained by the exogenous construct versus the endogenous construct. (see table 5)

**Table 6:** R-Square.

| | **R Square** | **R Square Adjusted** |
|---|---|---|
| Corporate Governance | 0.373 | 0.37 |
| Firm's Performance | 0.455 | 0.453 |

To test the model, the current study used five hypotheses. T-values and p-values are used to accept or reject hypotheses. Furthermore, Using path coefficient values, we evaluated the strength of the association between the components. Higher correlation is indicated by values closer to +1, and vice versa(R Mundry • 1998),(Hair et al., 2014),(Chin, 1998), (C Fornell • 1981),(Roxas and Coetzer, 2012), (Hair et al. 2019),(R Mundry • 1998). All proposed hypotheses are significant at $p < 0.05$. $H_1$ proposed that RM has a significant effect on CG which is accepted ($\beta$=0.095, p=0.002); $H_2$ established a positive correlation between BE and CG which is also accepted at ($\beta$=0.288, p=0.000); $H_3$ proposed that innovation was associated with corporate governance and accepted at ($\beta$=0.402, p=0.000). Results for $H_4$ also revealed a positive mediating effect on the relationship between RM, BE, INN, and FP are accepted at ($\beta$ = 0.310, p = 0.000). However, $H_5$ was also supported, indicating a significant moderating effect of GP on the relationship between CG and FP and is acceptable at ($\beta$ = 0.144, p = 0.000). See table 7 and figure 2 which demonstrates the structural equation modelling (path coefficient and p-value).

**Table 7:** Path Coefficient and Hypotheses Testing.

| **Hypotheses** | **Beta** | ***p*-Values** | ***t*-Values** | **Decision** |
|---|---|---|---|---|
| RM→CG | 0.095 | 0.002 | 3.110 | Accepted |
| BE→ CG | 0.288 | 0.010 | 6.073 | Accepted |
| INN→ CG | 0.396 | 0.000 | 18.423 | Accepted |
| RM, BE, INN-> CG ->FP | 0.310 | 0.000 | 5.718 | Accepted |
| CG*GP-> FP | 0.144 | 0.000 | 4.322 | Accepted |

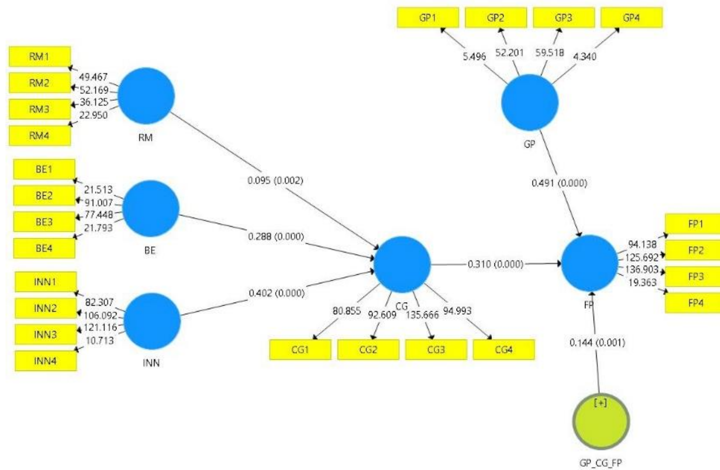


**Figure 2:** Structural Equation Modelling (Path Coefficient and P-Value.

## 5. Discussion

Any business has always been driven primarily by the desire to maximise profits for its shareholders. The focus of government regulations, risk management, innovation, and corporate governance, however, has turned to more responsible business behaviour in addition to profit maximisation as the global economic crisis began at the turn of the century. This includes the company's emphasis on areas such as sustainability, environmental, social, governance issues, and innovation considerations. This has generated a lot of research interest in comparing the performance of firms that do take these factors into account with those that do not (Mishra and Yadav, 2021), (Sharma et al., 2019) . The current study thus addresses the intriguing factors like risk management, board effectiveness, and innovation that affect a firm's performance. On the other hand, additionally, it looked into how government and business policies acted as mediators and moderators.that can reduce failure and improve firm performance on a dynamic basis.

Our results indicate that risk management, board effectiveness, and innovations have a significant and positive relationship with corporate governance, however, The results are in line with those of the preceding study. (GC Landi • 2022),(H Mensi-Klarbach • 2021),(Keum, 2021).

On the other hand, (Hair et al., 2011) concluded that as risk management continues to evolve globally to encompass multiple aspects of business operations and activities, corporate governance and corporate risk management are increasingly intertwined, highlighting the interdependence and interdependence of corporate governance choices on overall risk management strategy and disclosure. The importance of influence. In other words, enterprise-wide risk management is a natural and critical component of corporate governance. As far as innovation is concerned (Chan & Cheung, 2012) found that the ultimate purpose of this innovation-promoting structure is to prevent managers from focusing too much on relatively short-term and more easily quantifiable performance indicators (myopia), and instead engage in long-term, risky, dynamic, and knowledge-intensive activities that lead to innovation. However, structures and activities that promote innovation can also improve managers' ability to benefit themselves at the expense of the company.

However, Hair et al. (2019) concluded that an effective board helps to sustainable growth and consistency in the progress of corporate governance. The composition of the board and the degree of board diversity demonstrate the board's "talent-focused" approach. Here, diversity is reflected not only in terms of age, gender, geography, and ethnicity but also in terms of knowledge, experience, expertise, and background. Strategic Directors contribute to the Board by providing constructive advice on corporate development and the personal development of other Directors. Whereas, found that

Previous studies have found that the level of corporate governance has a significant impact on risk management, corporate governance, and innovation for better performance of the firm Tonglet et al. (2004). The link between risk management, corporate governance, innovation, and company performance, according to our argument, will also be mediated by the level of corporate governance (YA Soomro • 2022). The following two factors might serve as a reflection of the mediating function of corporate governance: First, a higher level of corporate governance helps to mitigate risks, so that innovative technologies can be truly applied to places that can truly enhance the competitive advantage of enterprises and realize value. - Added functionality. Second, a higher level of corporate governance can transmit positive information to board members, reduce information asymmetry, improve the transparency of firm performance information, and help companies obtain external financing at lower costs (Hair et al., 2012). Compared with companies with lower levels of corporate governance, the innovation of companies with higher levels of corporate governance can better coordinate the relationship between the company and stakeholders, reduce risks and corporate financing costs, and improve the company's debt financing capabilities (Spira and Page, 2003). More importantly, agency theory focuses on value maximisation is undermined by the agency issue between principals and agents (i.e., shareholders and managers/directors). The agency issue between shareholders and management has been said to be effectively solved by the board of directors, ownership concentration, and management holdings (Naz et al., 2022).

Our results reveal that government policy significantly moderates that how corporate governance affects business performance which is supported by previous study (Rahman et al.,2019; Seow et al., 2021). According to the institutional theory, the type and dynamism of the institutional environment inevitably influence a nation's economic activity through the laws, restrictions, incentives, and rewards that shape the socioeconomic behaviour of different economic players. Roxas and others (2012). (Albitar et al., 2020) specifically state that government regulations, policies, and procedures may hinder and facilitate entrepreneurial activities, such as the launch of new businesses. On the other hand, when governments introduce policies that limit autonomy and certain kinds of entrepreneurial freedom, it also appears to hinder the performance of firms (Pergelova and Angulo-Ruiz, 2014). Whereas, (Prempeh & Nsiah, 2016) concluded that governments develop models and frameworks during which lines can compete with each other. Government policies for firms vary between developed and developing economies and vary by the number of social and customary values, industries, and business environments. Government policy controls the economy by involving technology and consumer stability, thereby improving business performance (Sharma et al., 2019).

## 5.1 Economic Significance of the Results

Risk management, board effectiveness, and innovation all have beneficial impacts on corporate governance, with important economic consequences for business success. Here are the economic implications of these findings, taking into account corporate governance's mediating

function and government policy's moderating effect:

**Improved Risk Management:** Risk management practises that are effective have a direct influence on corporate performance. Organisations may minimise financial losses, increase operational efficiency, and preserve their brand by detecting and minimising risks. These results contribute to the economic gains listed below:

A. **Cost Savings:** Effective risk management decreases the chance and effect of negative occurrences like as legal battles, operational interruptions, or cyber security breaches. Companies may save money on litigation, recovery, and reputation rehabilitation by reducing these risks.
B. **Improved Financial Performance:** Effective risk management practises guarantee that resources are allocated effectively, maximising capital utilisation and minimising waste. As a result, profitability, liquidity, and overall financial performance increase.
C. **Increased Investor Confidence:** Sound risk management practises boost investor trust in the organization's capacity to properly handle uncertainty. This may attract investment, cut borrowing rates, and enhance access to capital, allowing for more prospects for expansion and improving business success.

**Corporate Governance's Mediating Role:** Effective corporate governance provides the structure and supervision required to apply risk management practises across the organisation. It ensures that risk management procedures are incorporated into decision-making, fosters openness and accountability, and aligns risk-taking with the goals and risk appetite of the organisation.

**Effective Board Governance:** A key factor in determining a company's success is the effectiveness of the board of directors. A well-functioning board has a favourable impact on strategic decision-making, risk management, and resource allocation. The following are the economic ramifications of successful board governance:

A. **Improved Strategic Decision-Making:** A knowledgeable and diverse board contributes a wide range of experience and viewpoints to strategic deliberations. This results in more informed decision-making, greater identification of development possibilities, and more efficient resource allocation, eventually improving company success.
B. **Lower Agency Costs:** An successful board ensures that management acts in the best interests of shareholders and stakeholders, resulting in fewer agency conflicts. This alignment of interests reduces possible agency costs like management opportunism or excessive risk-taking, resulting in better business performance.
C. **Easier Access to Resources:** A well-governed board with strong networks and ties may make it easier to get access to resources like as cash, collaborations, and talent. This increases the organization's competitive edge, helps with growth goals, and improves firm performance.

**Corporate Governance's Mediating Role:** Corporate governance tools such as board independence, board committees, and openness are critical in improving board performance. They guarantee that boards work independently, give oversight, and provide counsel to management, so encouraging responsibility and responsible decision-making.

Innovating: Innovation is a critical driver of corporate success and competitiveness. Organisations that prioritise innovation profit economically in the following ways:

A. **Revenue Growth:** Innovation leads to the creation of new goods, services, or processes that may be used to enter new markets, gain market share, and generate revenue growth.

This allows companies to beat their competition and enhance their financial performance.

**B. Increased Operational Efficiency:** Innovative practises are often associated with process improvements and cost savings. Companies may improve profitability and firm performance by using new technology or business models that simplify processes, cut expenses, and increase productivity.

**C. Market Differentiation and Customer Loyalty:** Innovative goods or services distinguish a firm and attract consumers. Firms may improve their performance by creating distinctive value propositions that help them establish client loyalty, grow their customer base, and acquire a competitive edge.

Corporate governance plays a mediating role in innovation by creating an atmosphere favourable to creativity, risk-taking, and long-term strategic planning. It ensures that innovation activities are aligned with the organization's objectives, promotes the allocation of resources to innovation projects, and aids in the protection of intellectual property.

**Intellectual Property is a Kind of Property**

The role of government policy in moderating innovation: Government rules and policies have a significant impact on innovation and its economic effects. Supportive policies, such as R&D tax breaks, subsidies, and intellectual property protection, encourage businesses to invest in innovation. These policies generate an atmosphere conducive to innovation and have a beneficial impact on corporate performance. Restrictive rules or a lack of government backing, on the other hand, may stifle innovation and limit its economic advantages to enterprises.

In conclusion, the beneficial benefits of risk management, board effectiveness, and innovation on corporate governance have a considerable economic impact on business performance. They help to decrease expenses, improve financial performance, boost investor confidence, and improve strategic decision-making, lower agency costs, better resource allocation, revenue growth, operational efficiency, market distinctiveness, and customer loyalty. Effective corporate governance and supporting government policies are critical to achieving these beneficial results and maximising the economic effect on business success. 6.

## 6. Conclusion

This study's goal is to analyze the connections between risk management, board effectiveness, innovation, and corporate governance. It also looks at the mediating and moderating effects of corporate governance and governmental policy. Our results have proven that there is a positive relationship between risk management, board effectiveness, innovation and corporate governance. The study in the relationship between risk management, board effectiveness, innovation and corporate governance, as well as the mediating role of corporate governance and the moderating role of government policy on firm performance in the context of Pakistan, identified significant research gaps in the literature. The research emphasized the significance of corporate governance practices in boosting company performance and lowering the risks connected with business operations. The study also emphasized the need for more research to understand the unique implications of risk management, board effectiveness, and innovation on corporate governance and business success in Pakistan. While earlier research has addressed Corporate governance and company performance are related, the exact processes that mediate and modify this relationship have not been extensively investigated. As a result, future study should concentrate on identifying the particular characteristics that lead to improved corporate

governance and company success in Pakistan.

Furthermore, the research emphasized the significance of understanding corporate governance's mediating function in the link between risk management, board effectiveness, and innovation, and business success. Corporate governance practices, such as the membership of the board of directors and risk management methods, may have a significant impact on corporate success. Understanding the particular processes behind this link is thus critical for identifying the elements that lead to improved corporate governance and business success in Pakistan. Furthermore, the study emphasized the need for further research to investigate the moderating influence of government policy in the link between risk management, board effectiveness, innovation, and business success. Government rules and regulations may have a substantial influence on the business environment and the application of corporate governance practices. Understanding the precise aspects that contribute to strengthening corporate governance and business performance in the context of Pakistani government policies and laws is thus critical. The research also emphasized the necessity of taking into account Pakistan's distinct cultural, political, and economic elements when investigating the link between risk management, board effectiveness, innovation, and business success. Pakistan has a specific economic environment, and the elements that lead to improved corporate governance and company performance may vary from those in other nations. As a result, future study should consider the unique contextual elements that impact the link between these parameters and company success in Pakistan. Furthermore, the research emphasized the relevance of corporate governance practices in increasing business performance and decreasing risks. Effective risk management, board effectiveness, and innovation may all greatly improve corporate governance and business success. As a result, policymakers and practitioners should concentrate on developing efficient corporate governance practices that take into consideration Pakistan's particular contextual elements.

Finally, the study indicated prospective areas for further research, such as investigating the particular impacts of risk management, board effectiveness, and innovation on corporate governance and business performance in various sectors in Pakistan. Furthermore, future study might investigate the significance of cultural elements in influencing corporate governance practices and their influence on business performance in Pakistan. The study on the effects of risk management, board effectiveness, and innovation on corporate governance, as well as the mediating role of corporate governance and the moderating role of government policy on firm performance in the context of Pakistan, has identified significant research gaps in the literature. Future study should look at the particular characteristics that lead to better corporate governance and company performance in Pakistan, taking into account the country's distinct cultural, political, and economic aspects. Policymakers and practitioners should also recognize the need of developing strong corporate governance practices to enhance business performance and decrease risks.

## 7. Implication of the Study

For business owners, senior executives, and legislators, this study has a number of consequences. Our results show that government assistance, both financial and non-financial, secures a long-term competitive advantage and can enhance corporate performance. Small-scale and resource-poor enterprises can gain the advantage of government support through policy formulation and expand their business scale. The study on the relationship between risk management, board effectiveness, innovation, and corporate governance, as well as the

mediating role of corporate governance and the moderating role of government policy on firm performance in the context of Pakistan, has significant implications for policymakers, practitioners, and academics. The findings of the research may help to shape successful policies and practices in Pakistan's economic climate. To begin, the study's results emphasize the necessity of good risk management, board effectiveness, and innovation in strengthening corporate governance and business performance in Pakistan. Policymakers and practitioners should work on establishing rules and practices that support the use of effective risk management measures, increase board effectiveness, and stimulate innovation. This may assist to strengthen corporate governance practices and business performance.

Second, the research emphasizes the need of understanding corporate governance's mediating function in the link between risk management, board effectiveness, and innovation, and business success. Policymakers and practitioners should work on developing good corporate governance practices that take into consideration Pakistan's particular contextual elements. This may assist to moderate the interaction between these elements and enhance business performance.

Third, the research emphasizes the necessity of understanding the moderating influence of government policy in the link between risk management, board effectiveness, innovation, and business success. Policymakers and practitioners should design rules and regulations that foster good corporate governance practices and lower the risks associated with company operations. This may assist to control the link between these elements and enhance business performance.

Finally, the study emphasizes the need for additional research to investigate the particular elements that lead to improved corporate governance and company success in Pakistan. Future study might look at the link between risk management, board effectiveness, innovation, and business success in other areas of the economy. Furthermore, future study might investigate the significance of cultural elements in influencing corporate governance practices and their influence on business performance in Pakistan.

## 7.1. Implications for Practice

A. **Putting in Place Strong Risk Management Practices:** Businesses should prioritize the development and execution of effective risk management practices. This includes performing extensive risk assessments, developing risk mitigation strategies, and incorporating risk management into decision-making processes at all organizational levels. Firms may decrease financial losses, increase operational efficiency, and safeguard their brand by doing so.

B. **Improving Corporate Governance Mechanisms:** Companies should prioritize improving corporate governance practices, ensuring board independence and diversity, establishing effective board committees, and fostering openness and accountability. This promotes a culture of responsible decision-making, interest alignment, and effective monitoring, which leads to greater business performance.

C. **Fostering an Innovative Culture:** Firms should build an innovative culture by promoting creativity, giving resources for R&D, and encouraging experimentation. Creating avenues for idea creation and cooperation, motivating people to provide creative ideas, and assigning appropriate resources to support innovative efforts are all part of this. Firms may distinguish themselves, generate revenue growth, and increase operational efficiency by doing so.

## 7.2. Implications for Policy

A. **Supportive Government Policies:** Policymakers should develop and execute policies that encourage risk management, effective corporate governance, and innovation. This includes

tax breaks for risk management initiatives, regulatory frameworks that promote openness and accountability, and grants or subsidies for R&D operations. Such regulations encourage enterprises to adopt best practices, strengthen governance structures, and invest in innovation, all of which contribute to enhanced company performance.

B. **Intellectual Property Protection:** To encourage enterprises to invest in innovation, government policies should prioritize strong intellectual property protection. This includes improving patent, copyright, and trademark rules and regulations, as well as establishing tools to enforce intellectual property rights. Firms are incentivized to innovate because they may gain a competitive edge, attract investment, and reap the economic advantages of their discoveries by preserving their intellectual property.

C. **Regulatory Environment:** Policymakers should strive to create a regulatory environment that promotes risk management, good corporate governance, and innovation. This entails reducing bureaucratic barriers, simplifying regulatory procedures, and advocating for a balanced approach that assures compliance without limiting entrepreneurial activity. A favorable regulatory environment allows enterprises to concentrate on value creation, develops a culture of prudent risk-taking, and promotes development via innovation.

Overall, the practical consequences of these findings emphasize the necessity of establishing effective risk management practices, enhancing corporate governance structures, and cultivating a culture of innovation inside organizations. To maximize the beneficial impact of these determinants on company performance, policy implications emphasize the need of supporting government policies, intellectual property protection, and a favorable regulatory environment. Firms and governments may collaborate to achieve long-term economic development and improve overall business performance by addressing these consequences.

The findings, which highlight the positive effects of risk management, board effectiveness, and innovation on corporate governance while taking into account corporate governance's mediating role and government policy's moderating role, have several practical and policy implications for firms seeking to improve their performance. Here are some of the most important implications:

## 8. Limitation and Future Study

This study focused on Pakistani firms and made an important addition to the literature, although the results presented here cannot be applied universally. Therefore, there is a need to further explore current research models in manufacturing in Pakistan as well as in other countries. Furthermore, it is necessary to study corporate governance and performance through mediating variables such as organizational culture and organizational capability. Furthermore, in future management control systems and corporate governance, independent variables are used to measure organizational performance. Second, the present study used corporate governance as a mediator which may be extended by employing capital intellectual as a mediator.

Third, further research is needed on the impact of board roles on firm performance, particularly the impact of education level, gender, experience, and age of board members on firm performance. This will help to better understand the determinants of board effectiveness.

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### Author Contributions

All authors have contributed equally and agreed to the published version of the manuscript.

### Institutional Review Board Statement

Ethical approval was not required for this study as participant's consents was sought before participating in the survey and Participants don't belong to any vulnerable groups.

### Informed Consent Statement

Informed consent was obtained from all subjects involved in the study.

### Data Availability Statement

The datasets used and/or analysed during the current study are available from the corresponding author on reasonable request.

### Conflicts of Interest

The authors declare that they have no competing interests.

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