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Corporate Governance in Pakistan and the UK: A Doctrinal and Comparative Legal Comparison

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Abstract
This thesis critically examines the corporate governance framework of Pakistan, highlighting systemic weaknesses in enforcement, board independence, shareholder protection, and transparency. Using a comparative legal approach, it analyses the United Kingdom's corporate governance model particularly the Companies Act 2006 and UK Corporate Governance Code to identify practical mechanisms that ensure accountability and institutional oversight. The research reveals that while Pakistan has modern laws such as the Companies Act 2017, their implementation remains weak. Drawing from UK practices like independent audit oversight, board evaluations, minority shareholder remedies, and ESG disclosures, the study proposes reforms tailored to Pakistan's regulatory and economic context. The findings aim to support a transition toward a more effective, transparent, and investor-friendly governance system in Pakistan.
Keywords
Corporate Governance, Pakistan, United Kingdom, Comparative Legal Analysis, Companies Act 2017, Companies Act 2006, SECP, FRC, ARGA, Audit Oversight, Legal Reform, Regulatory Enforcement, Board Accountability, ESG Disclosure, Corporate Law
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1. Introduction

The issue of corporate governance (CG) has taken a central position in academic and policy debates following major financial crises around the world (Solomon, 2020). Numerous endeavours have been made to improve CG in Pakistan. However, these efforts have not yielded the intended results (Ahmad, 2021). Furthermore, existing research lacks evidence on the impact of these reforms and governance norms on the performance of listed companies in Pakistan (World Bank, 2020). Thus, the purpose of the research is to determine the CG framework in Pakistan, outline its drawbacks, and evaluate the sources of reform. In the past decades, corporate governance has taken root as a pillar in sustainable development and protection of investors particularly following prominent corporate failures like Enron (2001), WorldCom (2002) and the general global financial meltdown of 2008 (Coffee, 2002).

As a reaction to such events a great deal of jurisdictions attempted legal and regulatory changes that would help empower their regimes. The United Kingdom is one of the leading countries in the world, especially regarding the idea of the comply and explain approach, which is integrated into the UK Corporate Governance Code, Cadbury Report (1992), and Companies Act 2006 (Cadbury, 1992; FRC, 2018; Companies Act 2006, UK). This system is a balanced approach between regulation and market discipline and responsiveness.

On the contrary, although the CG regime in Pakistan has changed, it has persistent issues of enforcement, institutional effectiveness, shareholder involvement, and poor independence of board (Mallin, 2019). Although the reforms in terms of the Codes of Corporate Governance (2012, 2002, 2019) by SECP and the introduction of the Companies Act 2017 have been implemented, the implementation is imperfect (SECP, 2021; Companies Act 2017, Pakistan).This article evaluates critically these issues, based on analysis of law and institutions, and comparative experience of the UK, to propose changes to be made within the economic and regulatory environment in Pakistan.

2. Research Methodology

The present research utilizes a hybrid methodology that combines qualitative and doctrinal legal approaches. The doctrinal aspect serves as the basis for an in-depth analysis of legal doctrines, statutory frameworks, and judicial decisions, while the qualitative element enables a critical and contextual exploration of how these legal principles are interpreted and developed over time. This integrated approach offers a more comprehensive and understanding of the legal issues being studied by merging formal legal evaluation with wider socio-legal insights.

The study relies on both primary and secondary legal sources. Primary sources include constitutional texts, legislative enactments, international legal instruments, and case law, which are analyzed to understand the development and application of relevant legal standards. Secondary sources, such as academic books, peer-reviewed journals, legal analyses, and institutional publications, are used to provide scholarly perspectives, doctrinal discussions, and critical evaluations that deepen the research.A descriptive and analytical method is employed to systematically examine legal progress and interpretation. The descriptive aspect outlines the historical, legal, and institutional backdrop, while the analytical part assesses the effectiveness, consistency, and real-world application of legal principles and their enforcement mechanisms.

3. Legal Framework and Statutory Structure

The United Kingdom and Pakistan both rely on comprehensive statutory frameworks to regulate corporate governance, but their legal infrastructure diverges significantly in terms of enforcement and judicial effectiveness. The UK Companies Act 2006, a consolidated and modern piece of legislation, explicitly codifies directors' fiduciary duties under Sections 171–177 and mandates comprehensive financial reporting between Sections 393–495. These legal provisions are routinely enforced through the UK's commercial courts, resulting in a growing body of case law that reinforces compliance and strengthens governance standards. Landmark cases such as Item Software Ltd v. Fassihi [2004] EWCA Civ 1244 and O'Neill v. Phillips [1999] 1 WLR 1092 have clarified directors' obligations to disclose conflicts and to treat shareholders fairly, illustrating a judicial system that is both active and authoritative (Hannigan, 2018). In contrast, Pakistan's Companies Act 2017, while containing comparable clauses such as Section 172 on fiduciary duties and Sections 223, 233, and 459 on disclosure and accountability remains under-enforced. The Securities and Exchange Commission of Pakistan (SECP) lacks the institutional autonomy, financial resources, and enforcement capability to ensure these duties are meaningfully upheld. Case law is sparse, and courts rarely adjudicate breaches of director duties, making the law more aspirational than operational (Cheema & Shah, 2019). Therefore, although the textual framework may appear similar, the UK's corporate governance regime is legally functional and judicially responsive, while Pakistan's framework is often symbolic due to limited judicial and regulatory activation.

4. Governance Models

Both the UK and Pakistan subscribe nominally to the Anglo-American model of corporate governance, which prioritizes shareholder value. However, practical implementation reveals that the UK has evolved into a more stakeholder-inclusive system, particularly in the wake of high-profile corporate failures and post-Brexit economic adjustments. Section 172 of the UK Companies Act 2006 mandates directors to consider long-term stakeholder interests—including employees, suppliers, the environment, and communities—when promoting the success of the company. The UK Corporate Governance Code 2018 further strengthens this by encouraging employee engagement mechanisms, such as worker directors and advisory panels (FRC, 2018). As a result, British companies increasingly align business decisions with Environmental, Social, and Governance (ESG) frameworks, reflecting a holistic approach to corporate responsibility. In Pakistan, while Section 172 of the Companies Act 2017 contains similar language, its practical application is negligible. There are no institutional or market-based incentives pushing directors to consider stakeholder interests. Companies rarely integrate ESG concerns into board deliberations unless driven by donor requirements or international investor pressure. The UK's stakeholder model is therefore substantively embedded into governance culture, whereas Pakistan's model remains heavily shareholder-centric, marked by controlling families and dominant shareholders who often override minority and stakeholder interests (Khan, 2022).

4.1 Board Composition and Independence

Board structure and independence are critical markers of corporate governance, influencing how effectively the board monitors executive performance and protects shareholder value. In the United Kingdom, the UK Corporate Governance Code mandates that at least half of the board (excluding the chair) comprise independent non-executive directors (INEDs), with clear guidelines to determine independence and regular external evaluations to ensure functional objectivity (FRC, 2018). The roles of Chairperson and CEO must be held by separate individuals to prevent an excessive concentration of authority. Furthermore, board sub-committees such as audit, nomination, and remuneration are composed entirely of INEDs, reinforcing transparency and accountability. Contrastingly, in Pakistan, the SECP Code of Corporate Governance 2019 mandates that only one-third of the board be independent, and even this minimum requirement is often filled with long-time associates or family members of the company's dominant shareholders (SECP, 2019). There is no formal vetting process for independence, and the separation of CEO and Chair roles is routinely ignored, especially in family-owned or politically connected companies. As a result, Pakistani boards often function as extensions of executive management, lacking the independence needed to critically assess business strategy or executive conduct. While the UK model promotes functional oversight through regulatory enforcement and investor scrutiny, the Pakistani model is characterized by cronyism and weak board effectiveness (Afza & Nazir, 2020).

Table 1: Comparison of Board Composition Requirements

Criteria	Pakistan	United Kingdom
Independent Directors Required	One-third (listed companies)	At least 50% on premium listed boards
Gender Requirement	Minimum one female director (proposed)	Voluntary targets (40% women)
Board Evaluation	Rare and unstructured	Annual evaluation, disclosed
CEO/Chair Separation	Recommended	Strongly recommended

4.2 Enforcement and Regulatory Oversight

The strength of corporate governance frameworks is ultimately tested by the quality of enforcement. The United Kingdom possesses a mature enforcement architecture comprising the Financial Conduct Authority (FCA), the Financial Reporting Council (FRC)—soon to be replaced by the Audit, Reporting and Governance Authority (ARGA)—and the Serious Fraud Office (SFO). Pakistan's SECP, by contrast, suffers from structural weaknesses, including underfunding, staff shortages, and political interference. Even where breaches are evident—such as in the KASB Bank or Hascol Petroleum affairs—regulatory responses are delayed, non-transparent, or resolved through informal settlements with no disqualification of directors or systemic reform (Cheema & Shah, 2019). Judicial enforcement mechanisms, such as derivative actions or director disqualifications under Sections 260–263 and 182 of the Companies Act 2017, remain rarely used. The UK thus illustrates a functioning regulatory regime underpinned by legal authority and public trust, while Pakistan struggles with institutional inertia that neutralizes even well-drafted laws.

4.3 Functional Shareholder Rights

In United Kingdoms, the rights of the shareholders are well established in law and they can exercise fully in corporate governance since they are effective. Based on Sections 260- 263 of the Companies Act 2006; the shareholders can sue the directors in case of breach of fiduciary duties under derivative actions to seek redress on behalf of the company. Besides, Section 994 has introduced the unfair prejudice remedy to give minority shareholders statutory protection against unfair methods of exclusion or oppression by the majority shareholders. In addition, the fact that business groups are largely family-owned creates fear in the mind of minority shareholders because they cannot risk conflict as they perceive that it will not attain anything or even fear to face any form of retaliation (Cheema & Shah, 2019). Consequently, it can be said that despite the existence of the corporate law in Pakistan incorporating formal compliance with international standards and practices, shareholder rights are practically inaccessible and ineffective due to the inaccessibility of legal instruments in this most of the time corrupt country.

4.4 Corporate Transparency and Disclosure Practices

The level of corporate transparency is another score where the United Kingdom governance system is performing much better compared to that of Pakistan. In the United Kingdom, the Companies Act 2006 Part 15 and the Disclosure Guidance and Transparency Rules by the Financial Conduct Authority (FCA) mandates companies to disclose various sets ofinformation such as financial statements, non-financial information and information relating to audit practices, its governing practices, business operations, and strategy (Companies Act, 2006; FCA, 2021). Personal relationships between the management and the auditors of companies jeopardize audits and compromise financial reporting (Afza & Nazir, 2020). Moreover, little regulatory verification of the quality of the contents and reporting of the non-financial is nearly non-existent. Therefore, although disclosures are required in both jurisdictions, disclosure in the UK has a culture of providing meaningful transparency as compared to the process of disclosure in Pakistan which is just a façade and symbolic.

4.5 Regulatory Enforcement Culture

The second significant deviation between UK and Pakistan is in terms of culture and ability of regulations enforcement. Pakistan, on the other hand, is characterized by institutional lack of dynamicism and erratic enforcement in their regulatory infrastructure. For instance, in the Hascol Petroleum case where the company was implicated in over-invoicing and accounting fraud—there was a conspicuous delay in regulatory response. Despite the gravity of the misconduct, SECP failed to initiate timely forensic audits or pursue director disqualifications. Rather than functioning as deterrents, Pakistani regulatory agencies often act only after media exposure or public outrage (Cheema & Shah, 2019). This reactive posture not only weakens the deterrence value of regulation but also undermines investor confidence and market credibility.

4.6 Risk Management Structures

Risk management is a cornerstone of modern corporate governance and is deeply institutionalized in the UK through both statutory obligations and soft law mechanisms. Under the UK Corporate Governance Code 2018, companies are required to establish comprehensive risk frameworks, conduct internal controls, and maintain dedicated risk committees, especially in sectors exposed to financial or operational volatility (FRC, 2018). The 2007 collapse of Northern Rock plc due to its failure to assess credit risk led to heightened expectations for board-level oversight of financial exposure (Northern Rock Case, 2007). In Pakistan, risk governance is neither formalized nor enforced. Although SECP encourages risk disclosures in its Code of Corporate Governance 2019, the absence of mandatory board-level risk committees or internal audit units in many firms results in generic and recycled risk sections in annual reports (SECP, 2019). This lack of specificity in identifying and mitigating organizational threats was tragically evident in the Airblue Flight 202 disaster, where risk management failures contributed to operational lapses—yet no formal governance reforms were initiated in its aftermath. The contrast illustrates that while UK companies institutionalize risk as a governance priority, Pakistani firms and regulators neglect it as a performative requirement.

4.7 Ethical Conduct and ESG Compliance

Ethical governance and Environmental, Social, and Governance (ESG) standards are integral to the UK's corporate regime and are increasingly being enforced through law, regulation, and investor expectations. The Modern Slavery Act 2015, for example, obliges companies to disclose steps taken to prevent forced labor in their supply chains, while gender pay gap disclosures and climate risk reporting have become standard expectations for FTSE 350 companies (Modern Slavery Act, 2015; Gender Pay Gap Reporting, 2017). In Vedanta Resources Plc v. Lungowe [2019] UKSC 20, the UK Supreme Court held that parent companies can be held liable for human rights abuses by subsidiaries abroad, reinforcing the legal and moral obligations of multinationals. In contrast, ESG in Pakistan remains an unfamiliar and underdeveloped concept. No mandatory ESG disclosure framework exists under the SECP, and ethical lapses—even those resulting in fatalities—rarely lead to regulatory reforms. The 2012 Baldia Town factory fire, which killed over 250 workers due to safety violations, did not result in stricter corporate accountability or labor protection laws. This absence of state-mandated ethical oversight indicates a profound gap in Pakistan's corporate governance, where societal impacts are rarely factored into boardroom decisions.

4.8 Role of Institutional Investors

In the UK, the UK Stewardship Code 2020, overseen by the Financial Reporting Council (FRC), obliges institutional investors (like pension funds and insurance companies) to actively monitor and engage with the companies they invest in. In British American Tobacco plc v Secretary of State for Health (2004), institutional shareholders challenged government regulations on packaging, illustrating how powerful investor voices can influence both company behaviour and public policy (British American Tobacco plc v Secretary of State for Health, 2004).

In Pakistan, institutional investors such as mutual funds, insurance companies, and public pension funds rarely challenge poor governance. They either lack the resources to intervene or are financially and socially tied to corporate management. In cases like the K-Electric governance disputes, large investors remained silent even when minority rights and service quality were questioned (SECP, 2021). Without an active investor culture, Pakistani companies face little internal pressure to improve governance or transparency.

4.9 Board Evaluation

UK boards are required to evaluate their own performance annually. The UK Corporate Governance Code (2018) advises external evaluations every three years for FTSE 350 companies. These evaluations cover attendance, participation, skills, and conflicts of interest. In Re Westmid Packing Services Ltd (1998), failure by directors to properly supervise business operations was criticised, reinforcing the duty of active engagement (Re Westmid Packing Services Ltd, 1998).

In Pakistan, although the Code of Corporate Governance (2019) issued by the SECP recommends annual evaluations, they are rarely conducted in practice. No case law or regulatory record shows serious consequences for underperforming directors. Board members often remain in their positions for years without scrutiny. In state-owned enterprises and family firms alike, this results in stagnant, inactive boards, undermining strategic direction and oversight (SECP, 2019).

4.10 Director Training and Qualification

The UK places high importance on director competence. Institutions like the Institute of Directors (IoD) offer certification programs and continuing education. Under Section 174 of the Companies Act 2006, directors must show "reasonable care, skill and diligence" or face liability. In Lexi Holdings Plc v Luqman (2009), directors were held liable for failing to detect fraud due to a lack of active involvement and oversight (Lexi Holdings Plc v Luqman, 2009).

In Pakistan, director education is not mandatory, and very few training programs are available. SECP's Corporate Governance Guidelines mention orientation, but there is no regulatory push or enforcement. Many directors are appointed based on family ties or shareholding, not merit. This leads to poor understanding of legal duties, financial matters, and risk oversight. The lack of formal qualification standards means that directors often fail to prevent fraud—as seen in the Sarena Textile financial manipulation case where board-level awareness was reportedly absent (Business Recorder, 2021).

5. Conclusion and Recommendations

Having undertaken a comprehensive comparative analysis of corporate governance frameworks in Pakistan and the United Kingdom, this article presents comparative analysis aimed at reforming Pakistan's corporate governance landscape. While Pakistan has made notable strides through the enactment of the Companies Act 2017 and the issuance of the SECP Code of Corporate Governance, the implementation and enforcement of these frameworks remain inconsistent, fragmented, and reactive.

Transparency is a cornerstone of UK corporate governance. Companies must submit detailed Strategic Reports, Directors' Reports, and Governance Statements under Part 15 of the Companies Act 2006 (Companies Act, 2006). Additionally, ESG disclosures are common, and reporting quality is scrutinized by investors, auditors, and regulators (Financial Reporting Council [FRC], 2020). In Pakistan, however, annual reports often provide only rudimentary financial information, lacking depth, forward-looking data, or risk assessments. Auditors are seldom challenged, and governance statements are largely formulaic (Khan & Aftab, 2021).

SECP should enforce comprehensive integrated reporting that includes financial, strategic, ESG, and risk management disclosures. Companies should be given templates and sector-specific guidelines to ensure uniformity. Independent reviewers should be allowed to audit the quality of these reports, and failure to comply should attract public penalties (SECP, 2020).

Pakistan should establish an independent Audit Oversight Board, free from ICAP's influence, with authority to inspect, penalize, and suspend audit firms. Auditor rotation, independence standards, and public grading of audit firms should also be enforced to restore investor confidence (World Bank, 2020). SECP must ensure that in boards of listed companies there is at least one independent female director and a disclosure of diversity of annual revelation which should include diversity measures and inclusion rules. It is also possible to promote wider representation by using governor scores and helping the formulation of governance by promoting the best scores and also the image of the organization (SECP, 2021).

In Pakistan SECP needs to launch Pakistan Stewardship Code that compels institutional investors to publicly report on their votes, shareholder activism principles, and interaction with companies over matters of governance. This role may also be professionalized by offering training programs and best practice manuals that would make investors active governance watchdogs (SECP, 2023). Pakistan ought to institutionalize a Corporate Governance Reform Commission that will carry out formal reviews of the governance frameworks after every 3-5 years. Compatible and suitable persons to be represented in the commission are regulators, judges, academicians, business leaders, and civil society members. Its conclusions need to be politically discussed, and SECP is to be compelled to follow main rejections (SECP, 2021).

The SECP should make ESG and sustainability reporting mandatory on all listed companies, starting with the large-cap and public interest companies. They should introduce a phased structure, referring to the global standards such as GRI (Global Reporting Initiative) or TCFD. Control by SECP should also involve provision of templates, training and guidelines on monitoring to stimulate proper and sensible reporting. In the long run, ESG indicators are supposed to join the set of corporate testing requirements particularly financial institutions and state-owned enterprises (SECP, 2023).

SECP has to organize specific audit supervision, ESG monitoring, whistleblower protection on the one hand and enforcing director qualification on the other hand (SECP, 2021). Thirdly, it should be enabled to undertake real-time investigations, resort to monetary and reputational fines, and publish enforcement measures with due transparency as with the FCA warning system (FCA, 2021). Finally, SECP should establish capacity-building initiatives not only among the companies but also its employees in the international partnerships, hence becoming a proactive, modern, and trust-building regulator (IOSCO, 2020).

Pakistan should also establish an institutionalized Corporate Governance Review Commission under the SECP that carries out a systematic review of the Code every 3-5 years working with judges, regulators, business leaders, minority shareholders and experts in governance. There should be each revision and should be supported by the consultation of the people and the findings need to be published. This way, the governance structure will not be fixed in time, waiting to become obsolete, but will be able to transform with the trends in the world and needs of the country (World Bank, 2020; SECP, 2021).

It is all as they say in the end, that corporate governance future in Pakistan is up to the lawmakers and regulators, the corporate leaders and the civil society to work together. Governance will come alive through institutional strength and shift of culture placing the skeleton, which are the legal reforms. The study gets the road map to gradual but aggressive improvement, towards the establishment of a Corporate governance system in Pakistan which will be ethical, transparent, accountable and internationalized.

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