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Corporate Governance as a Bridge: Examining the Impact of Political Intervention and Managerial Autonomy on Firm Performance in Pakistan

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ABSTRACT: This study looks into the combined impact of the political intervention and managerial decision-making autonomy towards firm performance within the high politically volatile countries and environments, such as Pakistan, spotlighting the mediating role of corporate governance mechanisms (CGMs) in this relationship. While previous research has examined these factors solely, this study combined them into a mediation model to give an empirical stance using data collected from 175 firms through a questionnaire that targets managerial and top managerial staff. Findings of this research paper reveal that political intervention has a highly significant adverse impact on firm performance, both directly and indirectly, after weakened CGMs. Data was analyzed on SPSS through various tests, such as descriptive analysis, normality test, reliability, multiple regression, and Andrew F Hayes Process Model 4, for the purpose of testing mediation, and then Spearman correlation. In addition, managerial autonomy shows a positive impact, with CGMs fully mediating its relationship with firm financial performance. The results support the basis of the agency theory, resource dependency theory, and strategic choice theory, showing that good governance structures have the ability to reduce the negative impacts of political intervention and effects while increasing the advantages of managerial decision-making autonomy. This study offers theoretical contributions to corporate governance mechanisms, literature, and practical implications for leaders and policymakers of corporate entities aiming to improve firm performance outcomes in developing economies.

KEYWORDS: CGMSs, Political Intervention, Managerial Autonomy

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Introduction

Political intervention in business and the availability of the degree of freedom and managerial autonomy to firm executives are two powerful institutional forces that are responsible for shaping corporate behavior in emerging markets. In Pakistan, recurring political instability are causing a major shift in regulatory priorities, and close affiliations between business and political actors to create a context in which firm decisions are often subject to extrinsic political pressures (Shakri et al., 2024). The Worldwide Governance Indicators reported by the World Bank show Pakistan's political stability scores remain substantially low compared to

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the global averages (Political Stability and Absence of Violence/Terrorism estimate = −1.9 in recent years), which highlight the weak political environment that frequently exposes firms to policy uncertainty and political interference in business. Such instability not only enhances the agency problems but also causes a rise in the prominence of corporate governance mechanisms as potential corrective measures (WGI DataBank, 2024).

However, managerial autonomy's benefits are conditional: in environments with weak institutions or deep-rooted political connections that negatively influence the decision-making power of managers and reduce the firm's value. This discussion suggests that managerial autonomy may either strengthen or weaken the firm's performance, depending on the surrounding governance and political context in firms. In recent studies, Pakistan has examined the impacts of updates to the Code of Corporate Governance (CCG) and the role of political instability, which concludes that improved governance mechanisms are associated with better accountability and market-based performance measures, especially when governance rules and reforms are effectively implemented and enforced in a particular firm (Shakri et al., 2024). On the other hand, the same literature highlights that politically connected firms sometimes gain a competitive edge over their rivals due to easier access to financing or favorable regulations enacted by the political stakeholders of those firms (Ullah & Kamal, 2020; Islam, 2023).On the basis of these dynamics, it is conceptually necessary to study how corporate governance mechanisms mediate the impacts of political intervention and managerial autonomy on firm performance. In Pakistan, where institutional weakness and political-business linkages are especially noticeable, governance mechanisms can either act as a corrective reducing disturbance from political intervention and provide a proper channeling towards managerial autonomy for the purpose of value-enhancing activities or as a medium through which political actors observe corporate resources (Shakri et al., 2024; World Bank, 2024). The Pakistan Economic Survey in 2023–24 reported a modest macroeconomic recovery (GDP growth=2.38% for FY2024), yet institutional weakness and governance deficits continue to limit the private-sector dynamism and investment (Ministry of Finance, Pakistan, 2024). These macro indicators highlight the practical importance of effective firm-level governance in supporting high-level economic resilience. Empirically, the proposed model of this research, Political Intervention (IVs), Managerial Autonomy (IVs), Corporate Governance Mechanisms (mediator), and Firm Performance (DV), addresses an important gap in the literature. While previous studies have examined political connections, managerial autonomy, or governance-performance links separately, fewer studies (especially for Pakistan) have tested the mediating role of governance mechanisms between the combination of institutional forces of political intervention and managerial autonomy on firm performance (Islam, 2023; Shakri et al., 2024). Studying this mediation offers both theoretical and practical contributions it refines agency institutional theory by highlighting the mechanism through which external political authorities and internal managerial rights transform into performance, and it provides effective regulators in Pakistan firms with actionable insights about which governance levers (e.g., board independence, accountability, transparency, audit quality) most effectively buffer, manipulates firms from politically driven management. This study, therefore, aims to examine whether and how corporate governance mechanisms mediate this relationship between political intervention and managerial autonomy with firm performance in Pakistan, by combining firm-level governance indices with measures of political interference and managerial autonomy across listed Pakistani firms, i.e, Government, Private.

Problem Statement

Although there is considerable research on governance and firm performance, few studies have explored the interconnected roles of political intervention, managerial autonomy, and corporate governance in highly volatile markets empirically. The corporate sector of Pakistan is affected by high political intervention through political affiliations on the board, which results in a weak regulatory enforcement authority of the firm, offering a unique context and emerging problem to study these relationships. Many firms are suffering from governance structures and style failures rooted in political favoritism in the board and among employees, leading to dangerous firm outcomes (Haris et al., 2019). On the other hand, firms that have more managerial autonomy and a low level of political interference often gain a competitive advantage over others, but it is only possible if this is supported by strong governance structures within firms (Arif et al., 2023).

The literature is insufficient in providing empirical validation on the topic of whether corporate governance mechanisms mediate the correlation between political intervention and managerial autonomy, like factors, and firm financial performance. Also, there is little empirical evidence from South Asian markets on how these constructs interact and react with one another in real practices. By addressing this research gap, it is essential to work on the complex dynamics of corporate governance strategies in highly complex countries.

Research Objectives

RO1: To analyze the direct effect of political intervention and managerial autonomy on firm performance.
RO2: Try to investigate the mediating role of corporate governance mechanisms in the relationship between political interventions, managerial autonomy, and firm performance.
RO3: To determine the relationship of variables: political intervention, corporate governance mechanisms, managerial autonomy, and firm performance.

Research Questions

RQ1: What is the effect of managerial autonomy and political intervention on firm performance in Pakistan?
RQ2: Do corporate governance mechanisms mediate the relationship between political interventions, managerial autonomy, and firm performance?
RQ3: What is the nature of the correlation that exists among political intervention, governance mechanisms, autonomy, and firm performance?

Significance of the Study

This research is based on providing both theoretical and practical significance. Theoretically, it expands the current knowledge by providing empirical evidence or proof after testing the mediating role of corporate governance mechanisms in the correlation between political intervention, managerial autonomy, and firm performance in Pakistani firms. On the other hand, much research has addressed these variables in their independent roles; this research connects all of them in a mediation model, thus adding a depth of new insights to governance literature (Shah et al., 2024).

Moving towards the practical significance, the findings can provide help to corporate leaders, heads, policymakers, and investors. For managers, this study offers insights into maintaining the balance required between managerial autonomy and political oversight in firms. For policymakers, it focuses on the need for reducing excessive political interference and enhancing the implementation of governance frameworks to enhance firm performance, as shown by the outcomes. All stakeholders can also benefit from a better understanding of the number of governance risks connected with political connections, which results in intervention and causes the reduction in the potential of governance reforms to improve financial market competitiveness (Farooq et al., 2022; Waheed & Malik, 2019).

Literature Review

Firm Performance

It is an analytical construct in the field of strategic management and corporate governance for the purpose of research. Traditionally, firm performance was measured through profitability ratios, ROA, ROE, and Tobin's Q measurement for the purpose of market valuation and innovation outcomes. In the case of the Pakistani context, there is a high volatility of firm performance due to institutional weakness in governance, political instability, and ownership concentration (Javid & Iqbal, 2008). Other scholars, such as Farooq et al. (2022), declare that internal governance mechanisms and structures of firms significantly impact the financial outcomes of that particular firm. Waheed and Malik (2019) further add that performance is going to maximize in those firms where ownership gives equal rights to all stakeholders and has independent boards for decision-making. Shah et al. (2024) further spotlight that those firms that are going to manage earnings transparently with stronger boards and audit teams, which oversee all the transactions and processes effectively and efficiently, are more likely to report sustainable profitability even in a highly complex country environment like Pakistan. Another variable that has a strong effect and relationship with firm performance is corporate governance mechanisms.

Corporate Governance Mechanisms

It refers to the set of rules and regulations, practices, processes, and means by which firms are directed and controlled for the purpose of the long-term sustainability of firms in financial markets. The historical background and roots of corporate governance trace back to agency theory, which emphasizes the mitigation of risk and conflicts between principals and agents. Governance structures often include board composition, audit committee activity, CEO duality, and institutional activities. Another study done by Iqbal (2010) reported that ownership centralization significantly impacts firm valuation and governance outcomes in the financial market and also gives a competitive advantage to the firms with respect to their rivals. Javaid and Saboor (2015) developed an index of Governance for manufacturing firms in Pakistan, which shows a direct positive effect of CGM on ROA and ROE. Another study done by Arslan and Alqatan (2020) highlights the role of institutional frameworks in shaping governance practices and notes their relevance in economies with weak enforcement of rules and governance mechanisms. Farooq et al. (2023) confirmed that firms that have independent directors and effective audit committees perform well and sustain for the long term in the financial market. Lastly, Waheed and Malik (2019) spotlighted that the quality of governance not only improves the performance but also safeguards against external risks like market volatility and political interference, which leads to a high change in firm performance. Another variable that has a strong correlation with firm performance and corporate governance mechanisms is managerial autonomy.

Managerial Autonomy

It is defined as the degree of freedom that managers have in the process of decision-making without the interference of internal and external factors. This variable was based on stewardship and strategic choice theories. Autonomy allows for on-time, proactive, innovative, and risk-adjusted decision-making, which can help to mitigate risk even in highly complex situations. Historically, unrestricted oversight was seen as a safeguard against managerial exploitation, but on the other hand, new perspectives spotlight the benefits of flexibility, especially in dynamic environments of financial markets and countries like Pakistan. In Pakistan, where centralized control of firms and financial markets frequently dominates, managerial autonomy acts as a key driver of innovation, which ultimately results in firm success. Azam et al. (2024) found that managerial care is positively related to firm profitability and efficiency of the resources. Khan (2016) suggests that a decentralized process of decision making leads to better capital budgeting for long-term projects. Another study suggests that state-owned enterprises perform much better compared to their past performance if they get a high level of managerial autonomy in the process of decision-making. Arif et al. (2023) state that such CEO's of firms that have a high level of managerial autonomy, regular governance checks, and audits contribute more positively towards firm performance. Usman et al. (2024) linked managerial autonomy in leadership with enhanced employee engagement, which causes an indirect boost in the level of organizational performance. Another variable that has an adverse effect on firm performance, managerial autonomy, and corporate governance mechanisms is political intervention.

Political Intervention

In a corporate environment, it refers to the undue influence created by political actors on the firm's appointments, operations, or resource allocation, which often leads to inefficiencies and mis-governance of management. Based on a historical aspect, such a type of intervention was justified as a major source of economic control, especially in post-colonial and developing economies like Pakistan. However, the modern agreement in institutional economics views political interference as a major hurdle, barrier towards social structure, efficiency, effectiveness, and accountability of a firm in the financial market. In highly complex and volatile countries like Pakistan, political connections have a strong effect on corporate structures, especially in State-Owned enterprises and private firms that are politically affiliated. Another study, Shakri et al. (2024), empirically proved that political instability sabotages corporate governance and reduces firm performance after creating a negative impact on it. Amin and Cumming (2023) showed that the presence of politicians and political stakeholders in executive roles has a negative impact on the firm's valuation. Haris et al. (2019) also confirmed that politically affected banks in Pakistan have weaker governance and higher risk compared to other firms. Zafarullah and Huque (2001) historically detailed how political favoritism may lead to a lack of managerial autonomy and bad financial health of firms. Lastly, Ullah et al. (2021) found that firms that have political connections underperform as compared to non-connected firms due to rent-seeking behavior.

Theoretical foundations of research

This research is based on 3 following three foundational base theories:

Agency Theory (Jensen & Meckling, 2019)

This theory is based on the conflict of principals (shareholders) and agents (managers)with one another, where managers act in their own interest rather than in the favor of the shareholders. Effective and efficient corporate governance mechanisms (CGMs) like independence of boards, committees for audit, and the CEO not acting as the chairman of the board are tools to reduce agency costs in a particular firm, even in a highly volatile market like Pakistan. In this study, corporate governance mechanisms mediate the relationship between political interventions and managerial autonomy, with firm performance.

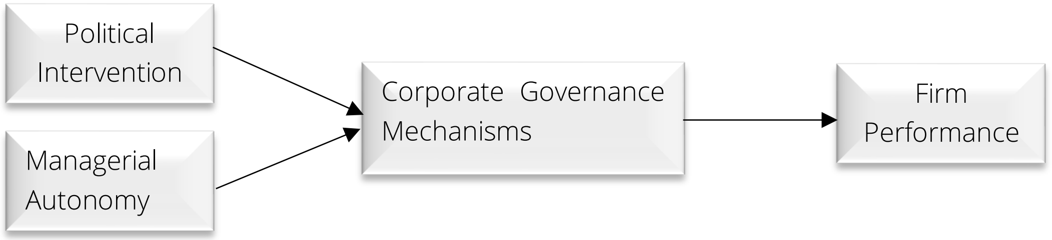
Resource Dependency Theory (Pfeffer & Salancik, 2015)

This theory highlights how particular organizations manage external dependencies on the availability of external factors to ensure the long-term survival and performance of the firm to sustain in the financial market. Political connections can serve as both a source of resources and a risk for the survival of the firm. Firms that have a high level of political support and intervention may access all the supreme sources of financing and contracts but must suffer from inefficiency in financial and operational matters (Ullah et al., 2021).

Strategic Choice Theory (Child, 1972)

Strategic choice theory supports the findings that the positive impact of managerial autonomy in firms is the source of enabling proactive, creative, and long-term decision-making sustainability of firms by managers. When autonomy is balanced with governance mechanisms, it enhances a firm's chance of sustainability and profitability even in the highly complex and volatile financial market like Pakistan.

Conceptual Model



Hypotheses

H1: There is a negative impact of political intervention and a positive impact of managerial autonomy on firm performance.
H2: The relation between political intervention and firm performance is mediated by corporate governance mechanisms.
H3: The relation between managerial autonomy and firm performance is mediated by corporate governance mechanisms.
H4: There is a positive correlation of managerial autonomy, corporate governance mechanisms, and firm performance, while a negative correlation of all these variables with political intervention.

Methodology

The research philosophy used in this study was positivism because it uses statistical and mathematical processes to test hypotheses and give empirical findings. It took the deductive approach, where the initial step involved a comprehensive literature review in order to come up with the hypothesis that would undergo testing. The methodological option was quantitative since the data were gathered through the structured questionnaire. The research design was a questionnaire survey, and the target population was the registered firms in Pakistan, including state-owned firms, government firms, and private firms, which are 525 firms as per the Securities and Exchange Commission of Pakistan (SECP) as of September 2025. The sample of 175 firms was chosen according to the sample-to-item ratio method (16 x 10 = 160), which is more than the minimum requirement and meets the generalization assumptions. The sampling method adopted was snowball or referral sampling, which is not a probability sampling method because not every firm had an equal opportunity of being sampled. Managerial and upper-managerial personnel were sampled because they are the individuals with the appropriate knowledge of political intervention, form of governance, managerial discretion, and performance of the firm. The study time horizon was cross-sectional as it gathered data at one time. The data analysis was done in SPSS, where descriptive statistics were applied to summarize both discrete and continuous variables, a reliability test was done to ascertain the internal consistency of the tool, and multiple regression analysis was done to study the influence of the independent variables. To conduct mediation, Hayes PROCESS macro Model 4 was followed, and since the conditions of normality were not met, the correlation coefficient was calculated using Spearman, as opposed to Pearson.

Data Analysis

The following tests are performed in this study for the purpose of providing empirical evidence in terms of proving this study:

Descriptive Analysis

Table 1

Type of Firm

Items	Frequency
Government, SOE's	51
Private Firms	124
Total	175

Table 2

Position in the firm

Items	Values
CEO	79
Director	34
Manager	57
HOD	5
Total	175

Table 3

Descriptive Analysis for Continuous Variables

Statistic	F_P	C_G_M	P_I	M_A
Mean	6.34	7.19	11.45	5.02
Median	5.00	6.00	13.00	4.00
Mode	3.00	6.00	15.00	4.00
Standard Deviation	3.41	3.42	3.68	2.14
Variance	11.59	11.68	13.54	4.57
Skewness	0.86	0.75	-0.79	0.74
Std. Error of Skewness	0.18	0.18	0.18	0.18
Kurtosis	-0.45	-0.59	-0.77	-0.57

Note: (FP= Firm Performance, CGM= Corporate Governance Mechanisms , PI= Political Intervention, MA= Managerial Autonomy)

Table 4

Reliability analysis

Items	Cronbach's Alpha
CGM	.981
PI	.984
MA	.912
FP	.981

All the values of Cronbach's alpha is greater than 80% which is greater then the threshold of the basic research, which means the reliability of all variables is fulfilled.

Table 5

Normality Test and Outlier

Items	Sig 2 Tailed Alpha
CGM	.000
FP	.000
MA	.000
PI	.000

All the values of Sig 2-tailed alpha are .000, which is less than 0.05, which means the normality assumption is not fulfilled, so all the inferential statistics process involves a parametric test to test the hypotheses.

Hypotheses Testing

H1:There is a negative impact of political intervention and a positive impact of managerial autonomy on firm performance.

Table 6

Multi-Regression Analysis

R	R square	Adjusted R-squared	F test	Sig 2-tailed Alpha	Standardize Coefficient Beta of PI	Standardize Coefficient Beta of MA	VIF of PI	VIF of MA
.906	.820	.818	391.82	.000	-.697	.264	2.07	2.07

On the basis of the results, the significance level 2-tailed alpha is less than 0.05, which means there is an impact of PI and MA on FP. R shows that the overall regression model creates a .906 impact by IDVs on DV, where PI creates a negative impact of -.697, and MA creates a positive impact of .264, shown by the standardized coefficient beta values. A higher F test with a value of 289 shows the model is a good fit. Adjusted R-squared shows 81.8% variance is explained by IDVs in DV. Lastly, this hypothesis is a multiple regression-based hypothesis, so to test multicollinearity, it is necessary that the VIF of both variables is 2.07, which is between the range of 0-4, so there is no multicollinearity. As a result, the null hypothesis is rejected, and the alternative is accepted.

H2: The relation between political intervention and firm performance is mediated by corporate governance mechanisms.

Table 7

Mediation table

Value of Direct Effect	P-value of Direct Effect	Value of Indirect Effect	Boot S.E	Boot LLCI	Boot ULCI
-.2069	.0001	-.6632	.0501	-.7615	-.5620

The results show that political intervention negatively impacts the firm's performance both directly and indirectly through the path of corporate governance mechanisms. There is a significant negative indirect effect (- −0.2069, 95% CI [−7615, −0.5620) which shows that political intervention damages the firm's performance by creating a negative impact on corporate governance, which also confirms the mediation. On the other hand, the direct effect of political intervention on the Dv firm performance remains significant (−0.2069, p = 0.0001), which suggests that political intervention also has the ability to harm firm performance through other possible pathways rather than only corporate governance. Overall, this is a partially mediated model because both direct and indirect impacts of mediation are present, so the null hypothesis is rejected and the alternative is accepted.

H3: The relation between managerial autonomy and firm performance is mediated by corporate governance mechanisms.

Table 8

Mediation Table

Value of Direct Effect	P-value of Direct Effect	Value of Indirect Effect	Boot S.E	Boot LLCI	Boot ULCI
0.446	.05150	.7372	.0601	.6166	.8464

The results highlight the findings that managerial autonomy, the IDV2 of the model, positively affected firm performance indirectly through the mediating role of corporate governance mechanisms, as witnessed by the positive and significant indirect effect (0.446) with a bootstrapped confidence interval of 95% [.6166, .8464], which includes the value, which is non-zero. But on the other side, the direct impact of managerial autonomy on the firm performance (.0515) is not statistically significant because the p value is greater than 0.05 (p = .0515), indicating that corporate governance fully mediates this relationship rather than the partial mediation. This suggests that managerial autonomy increases the firm's performance at the start by improving corporate governance mechanisms, which play a critical role in translating the concept of managerial autonomy towards better firm outcomes.

H4: There is a positive correlation of managerial autonomy, corporate governance mechanisms, and firm performance, while a negative correlation of all these variables with political intervention.

Table 9

Correlation Table

Items	FP	CGM	PI	MA
FP	1			
CGM	.875**	1		
PI	-.795**	-.807**	1	
MA	.727**	.777**	-.625**	1

Note: All the values of Sig 2-tailed alpha are less than 0.05

As on the basis of the results firm performance has a strong positive significant relationship of 87.5% with corporate governance mechanisms with political intervention it is strong negative significant relationship of 79.5% and with managerial autonomy it is strong significant positive relationship of 72.7% on the other hand corporate governance mechanisms have strong significant negative relationship with political intervention of 80.7% and with managerial autonomy it is strong significant positive relationship 77.7% and lastly the relationship of managerial autonomy with political intervention is strong significant negative relationship 62.5% positive impact which shows that if one variable increases other also increases in case of significant strong positive relationship and in case of strong significant negative relationship if one variable increases other decreases which proves that null hypothesis is rejected and alternate is accepted.

Discussion, Limitations, Delimitations, and Conclusion

Discussion

The results of this study confirm that there is a significant combined effect of political intervention and managerial autonomy on the firm performance, both variables are affecting directly and indirectly through the mediating role of corporate governance mechanisms (CGMs). The following results are consistent with past literature and extend the literature by providing meaningful insight.

Firstly, there is an adverse impact of political intervention and firm performance, as explained by the value of significant standardized beta coefficient (-0.646), this result also aligns with the findings of Shakri et al. (2024), Amin and Cumming (2023), and Ullah et al. (2021), all of them found that political interference often have an adverse effect on governance quality, which lead towards the promotion of inefficiencies, and also cause a reduction in organizational performance. The partial mediation proved in this study concludes that CGMs tend towards mitigation, but they are not able to completely erase the adverse impacts of political interference. This aligns with the views of Waheed and Malik (2019), who suggest that CGMs offer a defense line against external risks of firms but may still be unsafe under high political pressure.

Secondly, there is a positive impact of managerial autonomy on firm performance, as explained by the value of beta 0.324, which reflects the findings of Khan (2016), and Nasar et al. (2024), who suggest that autonomy proactively enables, effective, and efficient decision-making. Moreover, the full mediation by CGMs in the relationship of managerial autonomy and firm performance alone is insufficient; its benefits are clear and work effectively only with robust governance structures. This supports the theoretical agenda of Strategic Choice Theory and spotlights the importance of implant autonomy within oversight mechanisms in a structured way.

Moreover, the correlation analysis to check the relationship among variables reinforces the hypothesized model. The strongly significant positive relationships among CGMs, MA, and FP, along with the significant negative relationship with PI, show the structured mutual dependence of these constructs. These outcomes strongly confirm the proposed conceptual model of this study.

In conclusion, some studies mentioned in the literature suggest that political relations can be beneficial for strategic advantages through excessive access to resources (Ullah et al., 2021). But on the other hand, the empirical evidence, proof from this study, suggests that the position in the context of Pakistan, where such relationships appear to reduce rather than enhance firm performance. This might lead to the reflection of contextual differences in how political stakeholders and political capital are performing in different economies or in different types of firms.

Limitations

This study has several limitations. First, the use of snowball sampling, a non-probability sampling method, may have limited the representation of the sample and introduced potential sampling bias. Second, the cross-sectional research design, in which data were collected at a single point in time, restricts the ability to draw causal inferences. Third, the study is based on self-reported data obtained from managerial perceptions, which may be subjective and affect the objectivity and accuracy of the results. Lastly, the scope of the research is restricted to firms operating in Pakistan, which limits the generalizability of the findings to organizations in other developing or developed economies.

Conclusion

This study increases the understanding of how political intervention and managerial autonomy have a combined effect on this multiple regression relationship, which not only slows down the negative effect of political interference but also increases the positive potential of managerial autonomy, which is important to realize. These results offer both theoretical and practical contributions by providing the integrated mediation model and highlighting important aspects for policymakers, corporate leaders, and governance reformers.

For firms trying their best to perform effectively and efficiently in politically complex environments with a high level of intervention, this study focuses on the need to provide support to internal governance structures. While trying to reduce the impact of political interference may be a difficult external challenge, on the other hand, enhancing corporate governance in a firm governance structure is an internal strategic choice that can increase tangible performance benefits.

Future research should be based on longitudinal designs, broader contexts, sector-wise analysis, and governance alternative variables for deep analysis and generalization of findings.

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