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The Fiduciary Compass for Board Responsibility and Corporate Decision-Making in Pakistan's Post-2017 Governance Regime

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Abstract

This article critically examines the legal architecture governing board responsibility and corporate decision-making in Pakistan following the enactment of the Companies Act 2017 and the subsequent Listed Companies (Code of Corporate Governance) Regulations 2019. Positioning the board of directors as a fiduciary compass meant to orient corporate decision-making toward the interests of the company and its stakeholders, the article traces the statutory duties codified under Section 204 of the Act, the disclosure and related-party transaction safeguards in Sections 205 to 208, and the board composition reforms mandating independent and female directors. Drawing on doctrinal legal analysis supplemented by a review of recent Pakistani corporate governance scholarship, the article argues that Pakistan's post-2017 regime has achieved considerable formal convergence with international benchmarks, including the G20/OECD Principles of Corporate Governance 2023, but that concentrated family ownership, uneven enforcement capacity, and the absence of a codified business judgment rule continue to hollow out the practical content of board accountability. The article concludes with targeted recommendations for statutory clarification, enhanced regulatory monitoring by the Securities and Exchange Commission of Pakistan, and cultural change within Pakistani boardrooms to narrow the gap between codified duty and lived practice.

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1. Introduction

Corporate governance reform in Pakistan has, for more than two decades, been animated by a single underlying question: how can the law ensure that a small group of directors, entrusted with the management of assets belonging to a far larger group of shareholders and stakeholders, can be relied upon to exercise that trust responsibly. The question is not unique to Pakistan. It is the question that animated the Cadbury Report in the United Kingdom, the Sarbanes-Oxley reforms in the United States following the Enron and WorldCom scandals, and the successive revisions of the OECD Principles of Corporate Governance since 1999 (OECD, 2023). What is distinctive about the Pakistani context is the persistence of highly concentrated, often family-based ownership structures, in which the formal separation of ownership and control that classical agency theory assumes is frequently attenuated in practice (World Bank, 2005; Zia & Burton, 2023).

Pakistan's statutory response to this challenge has evolved incrementally. The Securities and Exchange Commission of Pakistan (SECP) introduced the country's first Code of Corporate Governance in 2002, in the wake of international corporate scandals and growing

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pressure to align domestic capital markets with global standards. Revisions followed in 2012 and again in 2017, before the enactment of the Companies Act 2017, which replaced the Companies Ordinance 1984 as the principal legislative framework for corporate regulation, and the subsequent issuance of the Listed Companies (Code of Corporate Governance) Regulations 2019 (the 2019 Code), which replaced the 2017 Code and introduced a hybrid 'comply or explain' approach to board-level governance (Khan, Kamal, Hussain, & Abbas, 2022). This layered history means that the Companies Act 2017 cannot be read in isolation from the regulatory architecture that surrounds it; the Act supplies the statutory skeleton of directors' duties, while the 2019 Code supplies much of the operational detail on how those duties are to be discharged in the boardroom.

This article undertakes a critical legal analysis of that architecture, with a specific focus on the responsibilities of the board of directors and the quality of corporate decision-making it is designed to produce. It uses the metaphor of a fiduciary compass deliberately: the Companies Act 2017 and the 2019 Code together set a direction for board conduct, orienting directors toward good faith, independent judgment, and the interests of the company and its stakeholders. Yet a compass alone does not guarantee that a traveller reaches the intended destination; much depends on whether the instrument is well calibrated, whether it is actually consulted, and whether there are consequences for ignoring it. The central argument advanced here is that Pakistan's post-2017 governance regime has set a reasonably sound directional bearing on paper, but that structural features of the corporate landscape, gaps in judicial doctrine, and uneven enforcement continue to limit how far that bearing translates into accountable decision-making in practice.

The remainder of the article proceeds as follows. Section 2 situates the analysis within the existing literature on corporate governance in Pakistan and the broader theoretical debate between agency and stakeholder conceptions of the board's role. Section 3 sets out the legal and regulatory framework, focusing on the duties of directors under Section 204 of the Companies Act 2017, the disclosure and related-party transaction provisions in Sections 205 to 211, and the board composition reforms introduced by the 2019 Code. Section 4 undertakes a critical analysis of six specific dimensions of board responsibility and decision-making: the content of the fiduciary standard, the absence of a codified business judgment rule, the independent and female director mandates, the regulation of related-party transactions, the state of regulatory enforcement, and the empirical evidence on how board attributes have affected corporate outcomes since the reform. Section 5 situates the Pakistani regime comparatively against the United Kingdom's Companies Act 2006 and the G20/OECD Principles of Corporate Governance 2023. Section 6 discusses the implications of this analysis, and Section 7 offers recommendations before the article concludes.

2. Methodology and Approach

This article adopts a doctrinal legal research methodology, supplemented by a targeted review of recent empirical and normative scholarship on Pakistani corporate governance. The doctrinal component involves a close textual analysis of the relevant provisions of the Companies Act 2017, principally Sections 172, 173, 199, and 204 to 211, read together with the subordinate regulatory instrument that elaborates upon them, the Listed Companies (Code of Corporate Governance) Regulations 2019, and the 2023 amendments to that Code. This textual analysis is supplemented by a comparative reading of two external reference points, the United Kingdom's Companies Act 2006 and the G20/OECD Principles of Corporate Governance 2023, selected because Pakistani corporate governance reform has historically drawn on both Commonwealth statutory drafting conventions and OECD-derived international soft-law benchmarks.

The empirical component draws on a purposive, rather than exhaustive, review of published Pakistani corporate governance scholarship, prioritizing peer-reviewed studies published during or after the 2017 reform that speak directly to board composition, board decision-making, or the institutional context within which Pakistani boards operate. Because the underlying empirical literature on the 2017 and 2019 reforms remains comparatively young, this article does not purport to offer an exhaustive systematic review of the field, a task recently undertaken by Khan et al. (2022) for the period up to 2020, but instead uses that existing review, together with more recent targeted studies, as an evidentiary basis for the doctrinal critique developed in Section 4. This mixed doctrinal-empirical approach is consistent with the broader methodological turn in critical legal analysis of corporate governance regimes in emerging markets, which increasingly treats formal legal text and empirical governance outcomes as jointly necessary evidence for assessing whether a reform has achieved its stated objectives.

3. Literature Review and Theoretical Framework

The dominant theoretical lens through which board responsibility has traditionally been analyzed is agency theory, which conceptualizes the board as a mechanism for monitoring self-interested managers on behalf of dispersed shareholders. A competing, though not mutually exclusive, resource dependence or stakeholder view treats the board as providing advisory and networking value to the firm, extending its concern beyond shareholders to employees, creditors, and the wider community (Khan, Kamal, Abbas, & Hussain, 2022). Pakistani corporate governance scholarship has increasingly recognized that neither lens alone adequately captures the local context, given the prevalence of concentrated, family-based ownership structures in which the classical principal-agent problem between managers and dispersed shareholders is often overshadowed by a principal-principal problem between controlling and minority shareholders (World Bank, 2005; Zia & Burton, 2023).

A systematic literature review by Khan, Kamal, Hussain, and Abbas (2022), which synthesized 108 published studies and 17 research theses on Pakistani corporate governance between 2002 and 2020, identified two broad research trends. Between 2008 and 2016, scholarship tended to link governance variables to traditional firm-level outcomes such as performance, dividend policy, capital structure, and the cost of capital, generally through the lens of agency theory. From 2017 onward, following the introduction of the 2017 Code and the Companies Act 2017, research diversified into board-related issues, risk-taking, tunnelling, corporate social responsibility, and financial distress, drawing on a wider range of theoretical perspectives. This shift in the literature mirrors the shift in the regulatory framework itself, from a narrowly compliance-oriented conception of governance toward a broader, more board-centric one.

Empirical work specifically addressing the 2017 reforms offers a more granular picture. Khan, Kamal, Abbas, and Hussain (2022) examined the effect of board independence, female directorship, CEO duality, and director expertise, as introduced by the 2017 Code, on earnings management among 323 non-financial firms listed on the Pakistan Stock Exchange between 2015 and 2019. Comparing the pre- and post-reform periods, the study found that board independence, expertise, and female representation increased significantly after the reform, and that board independence and financial expertise were negatively associated with discretionary accruals, a common proxy for earnings manipulation. Notably, however, female directorship showed a positive association with discretionary accruals, a counter-intuitive finding that the authors situate within Pakistan's concentrated ownership context, where regulatory quotas may produce nominal rather than substantively empowered board diversity.

A further strand of theoretical debate, cutting across the agency and stakeholder perspectives, concerns whether the board is best understood as a monitoring body, tasked with constraining managerial opportunism on behalf of shareholders, or as a resource-provision body, tasked with contributing strategic advice, external networks, and specialized expertise to management. Khan, Kamal, Abbas, and Hussain (2022) note that the literature has documented both functions, with the monitoring role traditionally associated with the inclusion of more independent, outside directors, and the resource-provision role associated with directors' advisory and counselling contributions to management decision-making. Pakistan's post-2017 regulatory design implicitly assumes that both functions can be served by the same structural intervention, namely mandating a minimum proportion of independent directors, an assumption this article revisits critically in Section 4, where the empirical evidence on the actual behavioural effect of independent and female directorship mandates is examined in detail.

A separate strand of scholarship has approached the reforms through a comparative and doctrinal lens. Qureshi (2018) compared the corporate governance codes of Pakistan and other South Asian emerging economies, situating Pakistan's reform trajectory within a regional pattern of code convergence driven by capital market integration pressures rather than purely domestic reform impulses. Fatima, Bilal, and Malik (2021) offered a normative critique of the Pakistani Code of Corporate Governance against Islamic principles of corporate governance, arguing that concepts such as accountability, transparency, and the avoidance of undue gain, embedded in the Companies Act 2017's fiduciary standard, resonate closely with pre-existing Islamic governance norms, but that the Code's implementation has not always drawn explicitly on this normative resource. Finally, Zia and Burton (2023), in an extended institutional analysis of corporate governance failures in Pakistan, argue that formal legal reform of the kind embodied in the Companies Act 2017 interacts with a dense set of informal institutional factors, including family control, weak minority shareholder activism, and limited judicial capacity, that have historically permitted governance failures notwithstanding the existence of formally adequate rules. This article builds on that institutionalist insight, using it to frame a doctrinal analysis of the specific statutory provisions governing board responsibility.

Taken together, this body of scholarship suggests that any assessment of Pakistan's post-2017 board governance regime must hold two propositions in view simultaneously: that the formal legal text of the Companies Act 2017 and the 2019 Code has moved substantially closer to internationally recognized governance benchmarks, and that the practical significance of this formal convergence is mediated by an ownership and institutional environment that differs materially from the dispersed-ownership, strong-enforcement environment in which many of those benchmarks were originally developed. It is this tension, between formal legal convergence and substantive institutional divergence, that structures the critical analysis in Section 4 below.

4.The Legal and Regulatory Framework

4.1 The Companies Act 2017: An Overview

The Companies Act 2017 (Act No. XIX of 2017) is the principal statute governing the formation, operation, and regulation of companies in Pakistan, having replaced the Companies Ordinance 1984 save for provisions relating to non-banking finance companies, which remain governed by the earlier Ordinance. The Act came into force with immediate effect upon its enactment, and its provisions relating to the management of companies, including the role of the board of directors, the chief executive, and other officers, are principally located in the part of the Act dealing with company management, contracts, accounts, and meetings. The Securities and Exchange Commission of Pakistan is the principal regulator empowered under the Act, and under the Securities and Exchange Commission of Pakistan Act 1997, to issue subordinate regulations, of which the Listed Companies (Code of Corporate Governance) Regulations 2019 are the most significant for present purposes, having been issued under Section 156 read with Section 512 of the Companies Act 2017.

4.2 Duties of Directors under Section 204

Section 204 of the Companies Act 2017 codifies the core duties owed by directors to the company. As commonly summarized in professional commentary on the Act, these duties require a director to act in accordance with the company's articles of association; to act in good faith in order to promote the objects of the company for the benefit of its members as a whole; to exercise independent judgment together with due care, skill, and diligence; to avoid situations in which the director's interests conflict, directly or indirectly, with those of the company; and to refrain from seeking undue gain or advantage for the director or the director's relatives, partners, or associates, failing which the director may be required to account to the company for any such gain. A director's office cannot be validly assigned or transferred to another person, and any purported assignment is void. Breaches of duty, default, or negligence may in certain circumstances be ratified by the company through a special resolution, though the SECP retains power to impose restrictions on such ratification.

The 2019 Code, in elaborating upon this statutory duty, provides that the board of a listed company shall carry out its fiduciary duties with a sense of objective judgment and in good faith in the best interests of the company and its stakeholders, and that the board bears responsibility for the governance of risk, including the establishment of risk management policies and at least an annual review of business risks. This regulatory elaboration is significant because it extends the statutory reference to 'members as a whole' in Section 204 toward an explicit stakeholder orientation at the level of subordinate regulation, even though the primary legislative text of Section 204 itself remains framed principally around the interests of members.

4.3 Disclosure, Related-Party Transactions, and Conflicts of Interest

Sections 205 to 211 of the Companies Act 2017 supply the machinery through which the general fiduciary standard in Section 204 is given specific, enforceable content in situations of potential conflict. Section 205 requires disclosure of interest by a director, Section 206 addresses the interests of officers more broadly, and Section 207 provides that an interested director shall not participate in discussion or vote on a matter in which the director has an interest. Section 208 regulates related-party transactions, a provision of particular significance in an ownership environment where controlling shareholders and their associated entities frequently transact with the companies they control, while Section 211 restricts non-cash transactions involving directors. Taken together, these provisions operationalize the general conflict-avoidance limb of the Section 204 duty by requiring transparency at the point of disclosure and, in the case of interested directors, exclusion from the relevant decision-making process altogether.

4.4 Board Composition: Independent and Female Directors

A defining feature of Pakistan's post-2017 governance regime is its emphasis on board composition as a mechanism for embedding independent judgment into collective decision-making. The 2019 Code requires that at least two directors, or one-third of the board, whichever is greater, be independent directors, and that every board of a listed company include at least one female director. In July 2023, the SECP amended the Listed Companies (Code of Corporate Governance) Regulations 2019 and the Companies (Postal Ballot) Regulations 2018 to address practical difficulties companies had faced in electing independent and female directors, introducing a three-tier category voting structure under which votes are cast separately for female, independent, and other directors, with the number of votes available to each member allocated proportionately to the number of seats reserved for each category (Securities and Exchange Commission of Pakistan, 2023). The SECP explained that this reform was intended to strengthen minority shareholder protection by ensuring the efficient and transparent election of independent directors, while simultaneously promoting board diversity.

The 2019 Code's defining regulatory innovation, relative to its 2012 and 2017 predecessors, is its adoption of a hybrid 'comply or explain' approach. Whereas earlier codes treated corporate governance requirements as uniformly mandatory, with any departure reported as non-compliance, the 2019 Code distinguishes between mandatory provisions, non-compliance with which attracts penal consequences, and non-mandatory provisions, which companies may elect not to follow provided they explain their reasons in the annual compliance statement verified by statutory auditors. This shift was intended to move Pakistani corporate governance from a rule-based toward a more principle-based orientation, placing correspondingly greater weight on the judgment of the board itself, and on the willingness of investors to scrutinize the explanations offered for non-compliance, rather than on rigid, one-size-fits-all rule enforcement.

5.Critical Analysis: Board Responsibility and Decision-Making in Practice

5.1 The Open-Textured Fiduciary Standard

The first difficulty this article identifies concerns the open-textured character of the fiduciary standard itself. Section 204 combines what common law jurisdictions typically treat as analytically distinct duties, a duty of loyalty (good faith, avoidance of conflicts, avoidance of undue gain) and a duty of care (independent judgment, skill, care, and diligence), into a single, undifferentiated statutory provision. While this consolidation is not unique to Pakistan and mirrors similar drafting choices in other Commonwealth jurisdictions, the absence of any statutory elaboration of what constitutes an adequately informed decision, as distinct from a merely well-intentioned one, leaves directors and courts with comparatively little guidance on where the duty of care threshold actually sits. This matters because the two duties call for different institutional responses: a breach of loyalty is best deterred through disclosure and ex ante exclusion from decision-making, the approach Sections 205 to 208 adopt, whereas a breach of care is better addressed through an ex post standard of review that respects legitimate managerial discretion while still policing genuine negligence, a function the discussion below suggests is not currently well served in the Pakistani context.

5.2 The Absent Business Judgment Rule

Directly connected to this gap is the absence, in the text of the Companies Act 2017, of any codified business judgment rule. In several comparable jurisdictions, the rule is a distinct statutory or common law doctrine that shields directors from personal liability for honest, informed, and rational business decisions, even where those decisions turn out badly, provided the director acted in good faith, on an informed basis, and free of any disqualifying personal interest. South Africa, for example, has codified the rule directly in its Companies Act, providing that a director satisfies the duty of care where the director has taken reasonably diligent steps to become informed, had no disqualifying personal interest or properly disclosed any such interest, and had a rational basis for believing the decision was in the company's best interests (Companies Act 71 of 2008 (South Africa), s. 76(4)). Pakistani legal practice appears to have developed an analogous doctrine through judicial application rather than statutory codification; commentary on director liability in Pakistan notes that superior courts, including the Islamabad and Peshawar High Courts, have applied a business-judgment-type doctrine to protect directors from suit over honest mistakes, notwithstanding that the doctrine is not named or defined anywhere in the Companies Act 2017 itself (Kakakhel, 2026).

This judge-made rather than statutory status carries real costs for the predictability of board decision-making. Directors contemplating a commercially risky but potentially value-creating decision, such as entering a new market, restructuring debt, or divesting a loss-making subsidiary, cannot point to a codified safe harbour analogous to Section 76(4) of the

South African Act, but must instead rely on the accumulated, and not always consistent, body of High Court precedent. For a jurisdiction seeking to encourage genuinely independent, risk-informed board decision-making, rather than defensive, liability-averse decision-making, this uncertainty is a structural weakness. It also sits awkwardly alongside Section 199 of the Companies Act 2017, which permits a company to indemnify a director against liability provided the liability does not arise from proven negligence, default, or breach of duty; without a settled doctrinal standard for what distinguishes an honest business misjudgment from actionable negligence, the practical scope of that indemnification power remains correspondingly uncertain.

5.2 Independent and Female Directors: Formal Diversity, Substantive Independence

The 2019 Code's independent and female director mandates represent the most visible board-composition reform introduced since 2017, and the empirical evidence reviewed above suggests they have had a measurable effect on board composition, with independence, expertise, and female representation all increasing significantly in the post-reform period (Khan et al., 2022). Yet the same study's finding that female directorship was positively, rather than negatively, associated with discretionary accruals is analytically important. One plausible explanation, consistent with the broader concentrated-ownership literature on Pakistan (World Bank, 2005; Zia & Burton, 2023), is that quota-driven board appointments in a controlling-shareholder environment can produce nominal diversity without a corresponding transfer of substantive decision-making influence, particularly where newly appointed directors are drawn from within the controlling family or its close associates rather than from an independent talent pool. If this explanation is correct, it suggests that Pakistan's board composition reforms have, to a significant extent, succeeded in changing the demographic profile of boards without yet fully succeeding in changing the underlying power dynamics that determine how board decisions are actually made, a distinction the systematic literature review by Khan et al. (2022) captures in its warning against a 'box-ticking' approach to governance reform.

The SECP's 2023 amendments introducing category-based voting for independent and female directors can be read as a regulatory response to precisely this concern, since a category voting mechanism is designed to prevent controlling shareholders from using their bloc voting power to determine the identity of nominally independent or female directors in the same way they determine the identity of ordinary directors (Securities and Exchange Commission of Pakistan, 2023). Whether this mechanical fix is sufficient to address what is, at root, an ownership-structure problem rather than a voting-procedure problem is a question the existing literature has not yet answered empirically, and it represents a natural direction for future research once post-amendment data becomes available.

6.Related-Party Transactions and the Limits of Disclosure-Based Regulation

The related-party transaction regime under Section 208 of the Companies Act 2017, reinforced by the interested-director exclusion in Section 207 and the audit committee oversight role prescribed under the 2019 Code, exemplifies Pakistan's broader regulatory strategy of addressing conflicts of interest principally through disclosure and procedural exclusion rather than substantive prohibition. This strategy is consistent with the approach favoured internationally; the G20/OECD Principles of Corporate Governance 2023 likewise emphasize periodic and immediate disclosure of related-party transactions, together with board approval processes that involve abstention by related board members and a special oversight role for the audit committee (OECD, 2023). The difficulty, in the Pakistani context, is that disclosure-based regulation is only as effective as the enforcement infrastructure that stands behind it. Where ownership is concentrated within a controlling family group that also occupies the majority of executive and non-executive board seats, the practical efficacy of an interested-director exclusion rule depends heavily on whether the remaining, formally disinterested directors possess both the information and the institutional independence to scrutinize a proposed related-party transaction meaningfully, a precondition the literature on Pakistani board composition suggests cannot simply be assumed (Zia & Burton, 2023).

7.The Enforcement Gap

A further constraint, distinct from but closely related to the design questions addressed above, concerns the institutional capacity available to enforce the standards the Companies Act 2017 and the 2019 Code set. The 2019 Code's 'comply or explain' architecture places considerable interpretive weight on the SECP's willingness and capacity to scrutinize the quality of companies' compliance statements, rather than merely their existence, and on the willingness of institutional and minority shareholders to price non-compliance into their assessment of a company (Khan et al., 2022). Where the SECP's monitoring resources are stretched across a large and heterogeneous population of listed companies, and where minority shareholder activism remains comparatively underdeveloped relative to markets with a longer institutional-investor tradition, the practical deterrent effect of the disclosure-based regime described above is correspondingly weaker than the formal text of the Code might suggest. The World Bank's early assessment of Pakistan's corporate governance framework had already flagged limited institutional capacity and weak minority shareholder protection as structural constraints on governance reform (World Bank, 2005), and more recent institutional analysis suggests that while specific capacity gaps have narrowed since then, the underlying pattern, of a comparatively well-drafted rulebook operating within a still-maturing enforcement ecosystem, persists (Zia & Burton, 2023). This enforcement gap is, in the terms of the compass metaphor introduced earlier, the equivalent of a compass with no one checking whether the traveller is actually walking the bearing it shows.

8.Reading the Evidence Together

Read cumulatively, the evidence and doctrinal analysis above suggest a consistent pattern. Pakistan's post-2017 regime has been broadly successful in establishing the formal architecture of board accountability: a codified fiduciary duty, mandatory disclosure of conflicts, a related-party transaction regime, and quantitative board composition requirements for independence and gender diversity, all substantially aligned with international benchmarks. What the regime has been comparatively less successful in achieving is the translation of that formal architecture into a functionally independent, well-calibrated system of board decision-making, principally because of three interacting constraints: the absence of a codified standard against which the quality of a board's decision-making process can be judged, the persistence of ownership structures that can dilute the practical independence of nominally independent or diverse directors, and an enforcement and disclosure regime whose effectiveness depends on institutional capacities, at both the SECP and the level of individual audit committees, that are still maturing.

9.A Comparative Perspective: The United Kingdom and the G20/OECD Principles

A useful point of comparison is Section 172 of the United Kingdom's Companies Act 2006, which requires a director to act in the way the director considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and, in doing so, to have regard to a non-exhaustive list of specified factors, including the likely long-term consequences of any decision, the interests of the company's employees, the need to foster business relationships with suppliers, customers, and others, the impact of the company's operations on the community and the environment, the desirability of maintaining a reputation for high standards of business conduct, and the need to act fairly between members. This statutory list, often described as codifying the principle of enlightened shareholder value, gives United Kingdom directors, and the courts reviewing their conduct, a concrete checklist against which the good faith limb of the duty can be tested, and larger United Kingdom companies are now required to publish an annual statement explaining how the board has had regard to these factors in its principal decisions during the year.

Pakistan's Section 204, by contrast, articulates the good faith standard at a considerably higher level of generality, without an equivalent enumerated list of factors, leaving the elaboration of a stakeholder orientation to the 2019 Code's reference to the 'best interests of the company and its stakeholders' rather than to the primary statute itself. This is not necessarily a design flaw; a more open-textured standard preserves flexibility and may be easier to adapt to Pakistan's more concentrated ownership environment than a list calibrated to the dispersed-ownership, institutional-investor-dominated context for which the United Kingdom provision was designed. However, the absence of an equivalent reporting obligation, comparable to the United Kingdom's Section 172 statement, does mean that Pakistani boards face materially less pressure to demonstrate, in a structured and auditable way, how stakeholder interests were actually weighed in specific decisions, a gap that is consistent with the enforcement concerns identified in the preceding section.

The G20/OECD Principles of Corporate Governance 2023 offer a third reference point. Chapter V of the Principles identifies the responsibilities of the board as including strategic guidance, effective monitoring of management, and accountability to the company and its shareholders, while emphasizing that board members must be able to exercise objective and independent judgment and must oversee risk management systems designed to ensure compliance with applicable law (OECD, 2023). For the first time, the 2023 revision also introduced a dedicated chapter on sustainability and resilience, recommending that corporate governance frameworks ensure boards adequately consider material sustainability risks and opportunities in fulfilling their core functions. Measured against this benchmark, Pakistan's 2019 Code compares favourably on the traditional dimensions of board responsibility, including risk oversight and the comply-or-explain structure it shares with many OECD jurisdictions, but has not yet developed an explicit, board-level sustainability disclosure obligation comparable to the direction in which the 2023 Principles, and indeed the United Kingdom's own post-2006 reporting reforms, are heading.

10.Discussion: Calibrating the Compass

The fiduciary compass metaphor advanced in this article is intended to capture a specific analytical point: a legal instrument that sets direction is not the same thing as a legal instrument that guarantees arrival. The Companies Act 2017 and the 2019 Code between them point Pakistani boards toward good faith, independent judgment, and stakeholder-regarding decision-making, and the empirical literature confirms that board composition has shifted measurably in that direction since the reform (Khan et al., 2022). But a compass that is well calibrated in its wording can still fail to guide the traveller if the traveller does not consult it, if the terrain undermines the compass's readings, or if there is no one to check, after the fact, whether the traveller in fact followed the bearing it gave. Each of these three failure modes has an analogue in the Pakistani governance context discussed above: directors may not always be functionally free to exercise the independent judgment Section 204 requires of them, given ownership concentration; the absence of a codified business judgment rule means there is no settled after-the-fact standard against which a court can check whether a director's process, as opposed to outcome, met the required standard; and enforcement capacity, whether at the level of the SECP, the audit committee, or minority shareholder litigation, remains an area of ongoing institutional development rather than settled strength.

None of this is intended to suggest that Pakistan's reform trajectory since 2017 has been unsuccessful. On the contrary, the shift from the rigid, uniformly mandatory approach of the 2002, 2012, and 2017 Codes to the more principle-based, comply-or-explain structure of the 2019 Code, combined with quantitatively verifiable increases in board independence, expertise, and gender diversity, represents genuine, measurable progress against a low regulatory baseline (Khan et al., 2022). The argument here is narrower and more constructive: that the next phase of reform needs to shift emphasis from the composition of the board, which has received the bulk of regulatory attention since 2017, toward the process and accountability architecture that determines whether a well-composed board actually exercises independent judgment in a way that can be verified after the fact.

11.Recommendations

Several concrete reforms follow from the analysis above. First, the Companies Act 2017, or alternatively the 2019 Code, should be amended to codify an explicit business judgment standard, along the lines of Section 76(4) of the South African Companies Act 71 of 2008, specifying that a director will be treated as having satisfied the duty of care where the director took reasonably diligent steps to become informed, had no undisclosed conflicting interest, and had a rational basis for believing the decision served the company's best interests. Codification of this kind would not weaken director accountability; it would instead give both directors and courts a settled, predictable standard against which good-faith commercial risk-taking can be distinguished from actionable negligence, thereby encouraging the kind of informed risk-taking that value-creating boards must be willing to undertake.

Second, the SECP should be resourced and mandated to move beyond a formal compliance-checking role in respect of comply-or-explain disclosures toward substantive review of the quality of the explanations companies provide for non-compliance, potentially publishing thematic reviews that identify recurring or inadequately justified patterns of non-compliance across the listed sector, in the manner that comparable regulators in more mature comply-or-explain jurisdictions have begun to do. Third, building on the SECP's 2023 category-voting reform, regulators and stock exchanges should consider complementary measures, such as mandatory disclosure of any familial or business relationship between a nominally independent or female director and the company's controlling shareholders, to help investors distinguish formally compliant board composition from functionally independent board composition.

Fourth, Pakistan's regulatory framework should consider following the direction set by the G20/OECD Principles of Corporate Governance 2023 and the United Kingdom's post-2006 reporting reforms by introducing a structured board-level sustainability and stakeholder-impact disclosure requirement, requiring listed companies to explain, in a manner analogous to a Section 172 statement, how the board's principal decisions during the reporting year had regard to long-term consequences, employee interests, and community and environmental impact. Fifth, given the doctrinal uncertainty identified around the business judgment rule, judicial capacity-building, whether through specialized corporate law benches, structured judicial training, or the publication of clearer appellate guidance on the standard of review applicable to board decisions, would materially improve the predictability of Pakistani corporate law and, in turn, the confidence with which boards can exercise the independent judgment the Companies Act 2017 already, on paper, requires of them. Sixth, and complementary to the preceding measure, listed companies should be required to include, within their annual corporate governance compliance statement, a brief narrative account of at least one significant board decision taken during the year, describing the information considered, the alternatives weighed, and the process by which conflicted directors were excluded, thereby creating a documentary record against which the quality of board decision-making, and not merely board composition, can be assessed by regulators, auditors, and minority shareholders alike.

12. Conclusion

This article has argued that the Companies Act 2017, together with the Listed Companies (Code of Corporate Governance) Regulations 2019, has furnished Pakistani corporate boards with a reasonably well-calibrated fiduciary compass: a codified duty of good faith and independent judgment, a related-party transaction and conflict-of-interest regime built on disclosure and exclusion, and quantitative board composition requirements for independence and gender diversity that have produced measurable change in boardroom composition since 2017 (Khan et al., 2022). At the same time, the analysis has identified three structural constraints that continue to limit how far this formal architecture translates into genuinely accountable decision-making in practice: an open-textured fiduciary standard unaccompanied by a codified business judgment rule, board composition reforms whose substantive effect can be diluted by concentrated ownership structures, and an enforcement and disclosure regime whose practical bite depends on institutional capacities that remain under development. Addressing these constraints does not require abandoning the comply-or-explain, principle-based direction Pakistan has taken since 2019; it requires calibrating the instrument more precisely, through codified standards of review, more substantive regulatory monitoring, and enhanced stakeholder-impact disclosure, so that the direction the law sets for Pakistani boards is more reliably the direction in which corporate decision-making in fact travels.

This analysis is subject to certain limitations that qualify its conclusions and point toward directions for future research. As a doctrinal and literature-based study, the article does not itself generate new firm-level empirical evidence, relying instead on the existing body of published Pakistani corporate governance scholarship, which, as Khan et al. (2022) note, remains comparatively young relative to more established capital markets. The SECP's 2023 category-voting reform, in particular, is too recent for its effects on the substantive, as opposed to formal, independence of Pakistani boards to have been empirically evaluated, and the article's assessment of that reform is accordingly necessarily provisional. Future research combining doctrinal analysis of any eventual codification of a business judgment standard with firm-level empirical evidence on board decision-making quality, drawing on the kind of discretionary-accruals and real-activity-manipulation proxies employed by Khan et al. (2022), would provide a valuable further test of whether the recommendations advanced in this article, if adopted, in fact narrow the gap between codified board duty and lived boardroom practice that this article has sought to identify.

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