CAPITAL UNIVERSITY OF SCIENCE AND TECHNOLOGY, ISLAMABAD

Does an Islamic Label Indicate Good Corporate Governance?

by

Abida Perveen

A thesis submitted in partial fulfillment for the degree of Master of Science

in the

Faculty of Management & Social Sciences
Department of Management Sciences

2018

This work is dedicated to my beloved parents who have encouraged me to achieve this milestone and to my respected supervisor Dr. Ahmad Fraz, who has been a constant source of inspiration.

CAPITAL UNIVERSITY OF SCIENCE & TECHNOLOGY
ISLAMABAD

CERTIFICATE OF APPROVAL

Does an Islamic Label Indicate Good Corporate Governance?

by

Abida Perveen

MMS-143058

THESIS EXAMINING COMMITTEE

S. No.	Examiner	Name	Organization
(a)	External Examiner	Dr. Attiya Yasmin Javid	PIDE, Islamabad
(b)	Internal Examiner	Dr. Arshad Hassan	CUST, Islamabad
(c)	Supervisor	Dr. Ahmad Fraz	CUST, Islamabad

Supervisor Name
Dr. Ahmad Fraz
October, 2018

Dr. Sajid Bashir
Head
Dept. of Management Sciences
October, 2018

Dr. Arshad Hassan
Dean
Faculty of Management & Social Sciences
October, 2018

Author's Declaration

I, **Abida Perveen** hereby state that my MS thesis titled "**Does an Islamic Label Indicate Good Corporate Governance?**" is my own work and has not been submitted previously by me for taking any degree from Capital University of Science and Technology, Islamabad or anywhere else in the country/abroad.

At any time if my statement is found to be incorrect even after my graduation, the University has the right to withdraw my MS Degree.

(Abida Perveen)

Registration No: MMS-143058

Plagiarism Undertaking

I solemnly declare that research work presented in this thesis titled "**Does an Islamic Label Indicate Good Corporate Governance?**" is solely my research work with no sign cant contribution from any other person. Small contribution/help wherever taken has been dully acknowledged and that complete thesis has been written by me.

I understand the zero tolerance policy of the HEC and Capital University of Science and Technology towards plagiarism. Therefore, I as an author of the above titled thesis declare that no portion of my thesis has been plagiarized and any material used as reference is properly referred/cited.

I undertake that if I am found guilty of any formal plagiarism in the above titled thesis even after award of MS Degree, the University reserves the right to withdraw/revoke my MS degree and that HEC and the University have the right to publish my name on the HEC/University website on which names of students are placed who submitted plagiarized work.

(Abida Perveen)

Registration No: MMS-143058

Acknowledgements

First of all, thanks to the most powerful and most beneficial Allah Almighty who inculcated skills, knowledge and endless effort in me to reach here and accomplish my research work. He is the one who indulged and raised my interest in research work. Likewise, my parents, siblings and friends proved to be very supportive during every task that I had to do for completing my research work. I am very thankful to my most favorite teacher and supervisor of my thesis Dr. Ahmad Fraz who guided me very well to complete my research thesis and helped me out whenever I was stuck in some difficulty and for being with me to support me and boost my morale to complete my work well.

Abstract

This study aims to investigate the corporate governance practices of Shariah-compliant firms. It is hypothesized that Islamic label (Shariah compliance) firms indicate good corporate governance. Islamic label (Shariah compliance) firms identify with the use of low leverage level. Because recent evidence indicates low leverage indicate good corporate governance level. On the basis of this evidence, it is expecting these Islamic label (Shariah compliance) firms indicate good corporate governance than the non Islamic peers.The results are based on 108 firms listed at Pakistan Stock Exchange for the period of 2006 to 2015. This study has employed panel data analysis to explore the relationship of Islamic label and corporate governance. The results of this study indicates, Islamic label has a significant and positive effect on corporate governance. The positive sign indicates the increasing the level of corporate governance. The finding of this study helps the investors, managers as well as the regulatory bodies to better understand the effect of the Islamic label on corporate governance.

Keywords: Islamic Label, Shariah Compliance, Corporate Governance, Panel Data Estimation.

Contents

List of Tables

Chapter 1

Introduction

An interesting recent debate in financial economics is whether debt acts as a disciplinary mechanism for managers (Admati and Hellwig, 2013). According to the traditional view (Grossman and Hart (1982); Jensen (1986)), debt disciplines managers from wasting excess company cash and thus mitigates agency problems between shareholders and managers. Recent evidence, however, indicates that good corporate governance can substitute for debt as a mechanism of mitigating these agency problems ((Arping and Sautner, 2010); Jiraporn et al. (2012) and Yusoff and Alhaji (2012)). According to this view, firms with low debt should be well governed. This study analyzes whether this is true for a particular set of such low debt firms, namely so-called Islamic stocks.

Islamic stocks are listed shares of firms that are not active in unethical industries and that have passed certain financial screens. Most notably, they can only have a limited amount of debt on their balance sheet. These financial screens create a subset of low debt firms with perhaps different characteristics than their conventional counterparts.Islamic label firms have grown significantly thats why Islamic finance got familiarity all over the world. Islamic finance is not only used in Muslims countries or in Islamic nations, but it is also widely used in Non-Muslims countries like Canada, U.S, and U.K.

Islamic label on organizations have an attraction for Muslims for their investment, though that organization belongs to producing sector or service sector. Islamic label organization means that company or firm is following Islamic laws (Islamic financing and Shariah compliance) and avoiding all those activities which are prohibited in Islam like gambling, pornography, alcohol, Riba.

Corporate Governance is an instrument in which firms perform their activities and design responsibility of shareholders, managers, and stakeholders. It also provides the structure to the companies in which they set their objectives and these monitoring performance and objectives are the means of attaining.

The definition of the corporation is established by the organization for economic corporations and developers. (OECD) in 1999s as corporate governance is a relationship among its stakeholders and shareholders. Among the different participant in the firm such as., managers of the firm, shareholders, the board of directors and other stakeholders then corporate governance sets the right and responsibility specify the corporate governance structure for decision making on the corporate associations. Provide a procedure rules and regulations. It also provides a structure in which objectives of the governance are set.

Good corporate governance helps to strengthen long-term company performance. Where in the simple words corporate governance can be defined in this way, corporate governance is an instrument which is used in the collective interests of all its stakeholders and directs the affairs of a corporate body in order to serve and control and protect the individual.

Establish the huge number of those aspects is covered by corporate governance, it is not so much simple to understand the situation of corporate governance of a firm overall. There is so much information and also many variables which require to be managed for the understanding the level of good corporate governance in a company. In this situation, an overall cooperates governance index that an effectively summarizes the differences aspects of governance with a few numbers may be very useful. By using a corporate governance index one can easily rank companies accordingly to the level of good corporate governance. This is the pioneer study that established empirically evidence higher usage of corporate governance in Shariah compliance firms in Pakistan context firms.

1.1 Theoretical Background

This section of the study represents the theories relating to the Islamic label that is used to carry out to investigate the relationship between Islamic label Shariah compliance firms and corporate governance. Many researchers like Yusoff and Alhaji (2012); Flak and Rose (2005) and Dühnfort et al. (2008) have argued that emphasized only one theory is not enough for the understanding of corporate governance overall for this purpose researchers emphasized on the use of combine two or more theories for the better understanding of corporate governance. On the basis of this, in this study two theories are combined for the explanation of Islamic label and corporate governance. These two theories, namely are agency theory and stewardship theory to bridge the gap between the Islamic label and corporate governance and establishing the link between theories to build a background for this study.

1.1.1 Stewardship Theory

Albrecht et al. (2004); Van Slyke (2006) finds from the research that stewardship theory suggests that executives of the business are not interested in individual benefits. The executives of the business are keen interested to serve the principal interests. In this way, they are seen steward of the business. This study analyzes the stewardship theory in the context of the Islamic label in terms of transparency and managerial behavior. Bhatti and Bhatti (2009); Sulaiman (2005); Sulaiman et al. (2015) argues that Islamic label organization forms under the Islamic rules and regulations (Sharish compliance) principal and agent work for the collective interest rather than individual interest. Managers of the firms perform their duties according to Islamic values and beliefs. . In Al-Bukhari (1986) stated Prophet Muhammad (s.a.a.w) saying; each and every one is responsible for his/ her deeds. Clarke (2004) presents several factors like use of authority principals and agents, motivation, and identification these are familiar difference between stewardship theory and agency theory. Yan Lam and Kam Lee (2008) argue for the examining corporate governance at this point stewardship see as a complementing agency theory. So, there is a no better way of using stewardship and agency theory alone. The agency theory discuss in the following.

1.1.2 Agency Theory

Fama and Jensen (1983) find the main reason of existence of agency problem in an organization is a separate entity between the from his owner and the control of a corporation. As stead by the Jensen and Meckling (1976) the agency theory describes the relationship between management and ownership. They further argue about the theory that agency conflicts arise whenever the goal of their principals is different from the goal of the agent. This is because management has more information than the owner as they are involved in day to day operation of the business., so they will focus own interest instead of the owner. The theory proposes that when there is a weak connection between managers and shareholders. It will create a leak of association of interest between them. Oviatt (1988) was the first to examine that the managerial interests should be aligned with that of the shareholders and for that purpose the disclosure of information is important. The current study seeks to compare these two views about the governance and disclosure quality and subject them to empirical questioning.

This study examine does an Islamic label indicate good corporate governance in Pakistan? The corporate governance is the historical tendency for the stocks of firms. In Zwiebel (1996) structure, for instance, directors deliberately pick obligation to compel their possess future realm working trying to avert ex-post control changes. In the perspective of this and to the degree that obligation and all around planned corporate administrative structures are substitute components in alleviating office issues one would expect that organizations with predominant corporate administration have brought down levels of obligation. Testing this thought is testing, be that as it may, as firm-particular corporate administration; quality might be endogenous to financing approaches. In this paper, we contend that a framework Islamic label indicate good Corporate Governance.

Shapiro (2005) argues in Islamic companies for the purpose of evaluating performance of the management in these companies an extensive control is required.

This may persuade a modify in agency behavior and it may assist to diminish the problem of managers trying to make happy their individual interest. However, some scholars argue that the power of mutual religious beliefs can support a culture that can answer some of the evaluate agency performance. The research scholars of Shariah should not satisfy with this they should also carefully evaluate and examined the role of financial rewards (Dharwadkar et al. (2000); Abu-Tapanjeh (2009); and Shamsuddin and Ismail (2013)).

Abu-Tapanjeh (2009); and Siddiqui (2008)) find from the research that Managers in Islamic label (Shariah) businesses have to be accountable with the intention of creating higher welfare and development of the society not only for the simplest to the organization, its shareholders and all stakeholders, however additionally to the development of the society. Chapra and Ahmed (2002) and Iqbal and Lewis (2009) argue Tawhid (Unity of Allah) educates employers participants to position into practice aspects of Ikhlas (sincerity), Itqan (well informed), Amanah (truthfulness) and Shura (consultation) are the unique belief of Islamic attitude, now not best in the out come/ financial praise however in spiritual rewards additionally. However, the ethical relativism argues that the entire ethical values are particularly derived from Government guidelines or communal environment and there is probably no entire decency, or entire evil in a relativist tradition (Rice, 1999);(Ragab Rizk, 2008)).

In the context of the Islamic organizations, Ul Haque and Mirakhor (1986); Bashir (1996) finds the principal agent relationship have been studied and try to remove the hurdles between principal and agents. However, Safieddine (2009) finds, here is an additional cost of an agency in Islamic firms because they follow Shariah compliant rules and regulations for all transactions / deal of business.Siddiqui (2001) and Siddiqi (2006) finds when an investor wants to make an investment in Islamic firms, then investor first analysis the modes of financing like trade and rent, and partnership, these three financing moods basically based between the investor and the bank on the principal of of profit and loss sharing ratio. This exercise provides an additional business enterprise hurdle due to separation of cash from the manage.

Dar and Presley (2000); Grais and Pellegrini (2006) find in such a case in a Shariah compliant manner, managers could now not perceive satisfactory possibilities on behalf of a customer via negligence or through not making enough effort in coping with the price range of traders, which may bring about lower income and boom their benefits. In the same vein, an Islamic bank can play two roles, the role of owner and the role of agent. The Bank plays role of owner when it lends money to its customers on the profit and loss sharing basis and when it accepts deposits from its customers then bank play a role of agent. However, the customers of Islamic banks get exposed to greater risk, as they are not entitled to receive fixed returns on their deposit and there is no guarantee that the value of the deposit will be preserved. They might end up getting less than what they deposited.

1.2 Problem Statement

The Islamic label becomes an important factor that is worth investigating in Pakistan. The impact of the Islamic label on corporate governance remains unexplained in Pakistan. Islamic label can be a marketing tool and quality indicator. How Islamic label has been made into commodity by the market and capitalist system so that improve corporate governance. The matter regarding corporate governance and the Islamic label becomes really important in case of firms listed in Pakistan stock market as an Islamic country.

1.3 Research Questions

The study has the following Questions:

1. What is the impact of the Islamic label on corporate governance?
2. Whether the age of the companies has any effect on corporate governance?
3. Does the size of the companies have any impact on corporate governance?
4. Does leverage of the companies have any impact on corporate governance?

5. Does the growth of the companies have any impact on corporate governance?
6. Does the return on assets of the companies have any impact on corporate governance?
7. Does the board size of the companies have any impact on corporate governance?
8. Does the board independence of the companies have any impact on corporate governance?

1.4 Research Objectives

This study has the following objectives:

1. To investigate the impact of Islamic label on corporate governance.
2. To examine the impact of companies specific variables on corporate governance.

1.5 Significance of the Study

The contribution of this study is to explore the impact of Islamic label on corporate governance. This empirical study explores the relationship between Islamic label, shariah compliant firms, and the behavior of non financial sector toward good corporate governance. This study focus on that Islamic label stocks are low leverage. Islamic label firms use low debt and high equity levels which have been mitigates the agency problem and improve corporate governance.
This study addresses corporate governance, according to the preaching of Islam. This study not only provides valuable information but also very helpful for regulatory bodies to understand the level of good corporate governance under the Islamic label. This helps to tell, that Islam not only helps to protect the right of shareholders at large, but also secure the rights of the whole community.

It has also helped to the existing literature by investigating the impact of Islamic label on corporate governance of the Shariah-compliant firms and non-Shariah compliant firms listed on the Pakistan stock exchange. The empirical results of the study will help students, professionals, and corporate managers, that an Islamic label indicates good corporate governance.

In a sensible manner, the corporate governance has great importance close to the mechanism during which the companies are controlled and directed. The impetus for corporate governance is the allocation of responsibility and rights among the firm different participating, the other stakeholders, and the board management. A basic theme is provided by the corporate governance structure through the objectives of the companies is set and also monitoring the performance and the resources of attaining these objectives.

According to Islam corporate governance is a legal entity of shareholders. The main goal of corporate governance to sees the social welfare of stakeholders. This study shows that rules corporate governance obstacles (complicated activities, complicated rules, and principles) can be solved in the light of Islamic law (Shariah Compliant).

Corporate governance mechanism in Pakistan is considerably different than the leading structure of corporate governance in united kingdom, united states, and other developed countries, even within Pakistan, the system of governance is not the same various companies function as a business s group, whereas others firms within the state are operating as individual or stand-alone companies.

Over the years, corporate governance has increased over time and corporate governance has been with us of the legal control. It is not possible to have a crime free economic, so there is a need to make such rules of the games (corporate governance principles) that cannot be in excess of the spotlight. With the best interest of the, all shareholders by which firms are intended for and coped with The word corporate governance means a method (Akinsuleri 2011).

The useful description of CG amongst economist and permissible researchers denotes the protection of stockholder benefits conventional economist, after Smith (1776) to Means & Berle (1932) were afraid by the parting of possession and control which is through the assistance connection among primary (depositors, foreigners) and a negotiator (supervisor, capitalist, an insider). There is currently prevalent reaction the supervisors, say, might take activities that upset stockholders. They exercise inadequate controls when promising themselves to exterior doings while discovering it suitable to admit over staffing or once overseeing internal control.

1.6 Organization of the Study

The first chapter talk about the detailed introduction does an Islamic label indicate good corporate governance?. In this chapter detailed theoretical background of the variables has been discussed and also discuss that why this study is important to conduct.

Chapter number two contained a detailed literature review of Islamic label and corporate governance in this chapter corporate governance index determines ownership concentration, ownership structure, board structure, board size, audit committee, board independence, etc. are also discussed.

Chapter number three comprises of methodology. In this chapter, one can find the country on which this has been done and the sample size that has been taken. Sampling techniques have been discussed in this chapter and the measurement that has been taken to find out the effect of other variables. The method has been used to run the final results are also mentioned in this chapter. Correlation table and the relation of variables to each other are also discussed in this chapter. Sample classification, list of variables and their sources are also mentioned in chapter three. Descriptive statistics have been discussed in it.

Chapter number four includes results and empirical discussion of corporate governance and its determinants. Conclusion and future recommendations have been discussed in chapter number five. It has been discussed that what are the findings of this study and how it would be helpful for future researchers. All the references are mentioned at the end of the document.

Chapter 2

Literature Review

2.1 Islamic Label

Islam tells us about every aspect of life. One of them aspect is earning money and manage money (finance). Islamic finance means art of managing money accord to Islamic principle. Islamic finance is a very important tool in developing countries. World Bank is using the concept of Islamic finance for the development of the world and reduce poverty. Islamic finance, mention Muslims corporations which include companies, lending and borrowing and capital raising projects according to Islamic laws or Shariah compliant. Islam prohibits unethical earning like pornography, alcohol, maysir, pork and gharar.

According to the teaching of Islam, the financial system is simply based on freedom from any instances of Rabies and it's based on sharing of risk and reward. The citizens of the Islamic Republic of Pakistan strongly demand and recommend for their investment a system which is properly based on the Islamic financial system and which is free from Rabies/ usury, because Pakistan is created on the basic principles of Islam. Furthermore, the constituent of the Islamic Republic of Pakistan 1973 also focused and advised the government to form the financial system of Pakistan to eliminate the Rabies as early as possible. On 1st July 1948, made at the inauguration ceremony of the State Bank of Pakistan in this event the Quaid-e- Azam Muhammad Ali Jinnah said in his maiden speech:

I shall watch with keenness the work of your research.organization in evolving banking practices compatible with Islamic ideas of social and economic life. The economic system of the west has created almost insoluble problems for humanity and for many of us, it appears that only a miracle can save it from the disaster that is now facing the world. It has failed to do justice between men and to eradicate friction from the international field. On the contrary, it was largely responsible for the two world wars in the last half-century. The western world., in spite of its advantages of mechanization and industrial efficiency, is today in a worse mess than ever before in history. The adoption of the western economic theory and practice will not help us in achieving our goal of creating a happy and contented person.

An Islamic economic system which is based on the truthhtrue Islamic idea of equality in which the social justice and manhood for this purpose, we must work for our dignity in a way and for the dignity of the nation and present it in front of the world as an economic system. We will thereby be able to fulfill missions and goals as a Muslim and giving the message in the whole worldwide of peace to humanity, which alone can make safe the Certain reports were presented and drafted to provide efficacy and working condition for the purpose of elimination of Rabies, in light of (constitution, 1973) and On the basis of the above statement, some theoretical research has been conducted.

After the detailed debate on the matter, at this time the council of Islamic Ideology has been argued some information in the form of reports and draft to the government. In the report, the Council of Islamic Ideology has been advising the government and that advise were a line with the constitutional obligations in which, there were some alternative ways and suggests how to eliminate the Rabia from the financial system of a country. In the 1980s in Pakistan, in the financial institution, a non-interest based system was introduced to the financing and investment on the foundation of profit and loss distribution.

Islamic label corporations follow sharia compliant. Ullah et al. (2014) has defined sharia in this way, he said between the modern dominance of corporate social responsibility (CSR) and Sharia objectives is a well-built affinity. In three distinct steps that the Shariah compliant practice takes place,. It is pertinent to mention here, i.e (I) The orders are given by the verdict (fatwa) issuing authority. The firms verify and implement those instructions (II) For the launching a new product/service a religious verdict (fatwa) will issuance and (III) execution of the verdict.

Ibrahim (2006) has found from their study that in the Muslim world the believing source of laws and principles and binding are considered as Sharish laws fully, the importance of its significant have all legislated bodies and all regulatory bodies. Carrying out businesses for this the code of ethics and guiding principles are provided in Shariah. Highly acceptable of Shariah With regard to the ethics or regulations and the implementation of any code, i.e. From the Shariah ethical practices, fiduciary duties of management and directors are derived. There would be a high level of reasonable reduction in agency costs, high level of accountability, sustainability and transparency, if there Shariah rules and practices are used properly.

Dusuki (2008) reports in a broader and in a more holistic way Shariah objectives not only concentrate on the matter of responsibility individuals., but also businesses as a trust from Allah ones wealth is considered as a reliance From an Islamic religious perspective and therefore, and for personal gains avoid from the use of those things that would effect on damaging others and wealth should be used for the help of human being and Used those things which are relieve human being from their trouble.

The following are the five basic objectives of sharia, which are promoting the welfare of all mankind, their wealth (maal), their posterity (nasal), their human self (nafs), their intellect (aql) and their human. self (nafs). The defend of these five serves the public desirable and is interest whatever ensures. Sharia objective definition introduced the best comprehensive by Perhaps. Imam Al-Ghazzali, as quoted in Chapra. (2000, p. 118).

Islamic principal prohibits riba payment and receive interest. Mostly listed companies occupied in receiving and paying interest which is illicit (haram) for investment in Islamic principal point of view. Islamic financing vary from conventional financing. Islamic loan assured by the federal Government while the convention finance loan is not insured by the federal government. Conventional finance referee to receive an interest on the principal amount and fixed rate of interest received it carries vary from floating rate (i.e., LIBOR, K IBOR) while Islamic finance flow floating rate.

In practice, Islamic laws. (Shariah principles) means Muslims cannot invest their money in certain areas. (E.g. Banking), receive or give conventional credit and loans (e.g. Conventional loans and conventional bonds), through derivatives speculate or risk shifting (e.g. Credit default swaps). Islamic rules (Shariah principles) may look strict and difficult to follow, but Islamic rules do not prohibit Muslims entrepreneurial risk and profiting. In shares of listing companies investment is the example of this.

Derigs and Marzban (2008) explain the universe halal asset definition by using different Shariah rules and also tried to demonstrate rationally the difference in halal and haram asset. They found from the analysis that a considerable number of every asset indexes are different in size as well as in constituent specified by halal and haram. There is no all-inclusive or by and large acknowledged comprehensive of how to change the distinct Shariah rules into an arrangement of checkable speculation rules.

Beekun and Badawi (2005) report that modification awareness of the association between spirituality and managerial thinking., sparse - especially in the area of ethics the relationship between Islam and Management has been covering the literature. Muslims culture is different from other cultures and thats why due to this single element a binding countries and Muslims, individuals are normative Islam, one fifth of the total world population in which nearly 1.3 billion. Muslim worldwide. With the using of religions teaching the content of an. Islamic business model of ethics is made. This ethical business model finds the multiple desires of stakeholders and its enforcement mechanisms discuss. This approach of Islamic business model in a corporate make criteria of principal and agent and which is unique relationship with them such as as trust and benevolence.

Uddin (2003) also reports that the Muslims population has been spread rapidly across many countries globally some of them get the planets crude oil resources a

lions share. In this situation, including one based on Religion- a greater appreciation of diversity is needed because the tide of globalization has stressed.
Already much research has been published on the topic of the Judaism business of ethics (Baron (1999); Pava (1997); Pava (1998)) or Christianity to business ethics (Jones (2001); Lee et al. (2003)), while only very few research has been available on the topic of ethic Islamic business.

2.2 Corporate Governance

Shleifer and Vishny (1997) have defined Corporate organization as it deals with the frameworks that certification budgetary authorities in associations get a landing on their endeavors.
The latest couple of years has seen a growing excitement for "corporate organization", driving Parker (2007) to express that "corporate organization has requested the biggest measures of thought and prudent examination among directors, controllers, reasons for living, business bodies, media and the general gathering.
Chen (2004) has been documented For developing countries attract new investment is essential for good corporate governance. For the development of corporate governance a number of discipline theories have been effecting which is included management, organization behavior, accounting, law, finance, economics, etc. A good corporate governance has following features:
i) Within a company has adequate and appropriate control of the system.
ii) To power and influence any single individual from wielding prevents.
iii) It is about the relationship between other stakeholders and shareholders, company board of Directors and management.
IV) Company managed the interest of the shareholders and stakeholders.
V) Both accountability and transparency are trying to encourage.
Lemmon and Lins (2003) also report that In the several studies the association among the firm values, corporate governance and the cost of capital has always been at the center since high profitability and firm value are usually associated

with effective corporate governance practices.

Samra (2016) has studied that Corporate organization has been at the front line of trades of the financial organizations industry for an impressive time frame. Genuine disillusionments in the business world, from Enron to Lehman Brothers, have been depicted as, notwithstanding different things, frustrations of corporate organization. Along these lines, all together for a cash related establishment to battle on an overall scale monetary masters, controllers, and customers must have certainty that the solid corporate organizational norms are embedded in the establishments focus.

The effect of corporate organization of company execution in the midst of 1990s. The researchers have analyzed that the return on stocks of firms with a shareholder right beat., on a risk adjusted introduce, returns of firms with weak shareholder rights by 8.5.Percent /year in the midst of this decade. Given the result, honest to goodness about can be raised about the successful market suggestion., since these portfolios could be produced with openly available data. On the plan territory, corporate organizations protectors have significantly referred to this result as facts that extraordinary organization (as measured by GIM) decidedly influences corporate execution Gompers et al. (2003).

Bhagat and Bolton (2008) has found. CEO chair separation is significantly correlated positively with stock ownership of board members with better subsequent operating performance. None of the future stock market performance is correlated with governance measures, GIM and BCF in contrary to claims. The bad performance is less likely to experience, disciplinary management turnover by the GIM and BCF indices with improved governed firms as measured.

Ferreira and Laux (2007) have found that corporate control guide to more informative stock prices for openness to the market by trading on the private information of and encouraging collection. The efficiency of corporate investment the components of volatility unrelated to governance are associated, interpretation Consistent with an information-flow.

Bushee and Noe (2000) have been Found that greater institutional ownership have higher AIMR disclosure rankings, but no net impact of return volatility on disclosure ranking. Increase in ownership primarily by transient institutions is associated with yearly improvements in disclosure rankings. Disclosure ranking improvements are characterized on short term strategies firms with aggressive trading based resulting to experience subsequent in stock return volatility in higher transient ownership are found.

Daines et al. (2010) have been found either their voting recommendations provided by Risk Metrics or the governance ratings little or no relation between them or on proxy proposals the actual votes by shareholders.

Doidge et al. (2007) have Studied, how country distinctiveness, their own governance and transparency in implementing measures to improve it influence firms costs and benefits. They have been found the variance in governance ratings (ranging from thirty nine percent to seventy three percent) explains much more of the country characteristics than observable firm characteristics (ranging from four percent to twenty two percent). In less-developed countries firm characteristics of the variation in governance ratings explain almost none and firms incentives for better governance that access to global capital markets sharpens.

Adams et al. (2009) have been located that turnover of CEOs is more touchy for the stock execution and executives get greater value based remuneration in company with more six differing sites. Be that as it may, the normal impact of sexual orientation differences in firm execution is un-constructive. This negative effect is determined by organizations with less capture barriers. Our outcomes urge that ordering sexual orientation quantities for the chiefs can decrease firm an incentive for all around administered firms.

Fisman et al. (2013) Regardless of whether more grounded administration enhances hold/supplant choices relies on upon which of these impacts commands. We utilize our hypothetical structure to survey the impact of administration on the nature of terminating and enlisting choices utilizing information on the CEO expulsions of substantial U.S. partnerships amid 19942007. Our discoveries are more reliable with a useful impact on feeble administration on CEO expulsion choices, recommending that protection from shareholder weight may take into account better long haul basic leadership.

Muhamad Sori et al. (2015) from their study they have found that the Shariah Governance Framework is an essential instrument to guarantee the IFIs are doing their parts in agreement with Shariah standards in light of a legitimate concern for contributors, speculation account holders, shareholders and partners.. This approach will help the advisory group comprehend the vision and mission of the establishment, and the issues confronted by the board and establishment.

Grais and Pellegrini (2006) explains by and large don't address the issue of the nature of the corporate Structure that would be best adjusted to the establishing standards of Islamic fund, the administrations it would offer, and the opposition it would confront. It would appear to be, not with standing, which no single model of corporate administration is probably going to win, as the viability of any structure would rely on upon the financial setting and the particular needs of every ward.

Easley and O'hara (2004) find theoretical studies have been discussed that firms can decrease their cost of capital by improving corporate governance policies and that control agency problems. Fishman and Hagerty (1992) argue from the research that if the investor recognize the agency problem, then in the stock market Managerial ownership might decrease investors self reliance. Cheng and Lo (2006) find that managers of the distribute wrong information about the stock price and in this way stock price decrease before buying shares their own firms.

Corporate governance is the set of procedures and mechanism on which any firm operates. (Gompers et al., 2003) provides empirical evidence on the relationship of the corporate governance and firm value. Their research on US firm shows that better corporate governance increases the profitability and ultimately has the positive impact on firm value. Gedajlovic and Shapiro (2002) have conducted research on Korean firm on the impact of ownership mediation on these firms. Their researches and results showed that there is a significant relationship between ownership and firm value. Sample of Korean companies was collected from year 1993 to 1997. This result shows that weak ownership concentration the firms profitability and its value.

Apadore et al. (2014) Discusses on the relationship between corporate performance and corporate governance mechanisms of public listed.companies in Bursa Malaysia among the consumer product industry. He investigates the relationship between both corporate performance and corporate governance for this he used CEO duality and board independence, ownership concentration, audit quality. He finds in understanding the importance of applied corporate governance are also relevant to the listed companies. He finds a significant association among corporate governance and. Corporate performance.

Caggiano et al. (2016) explains Corporate governance act in three ways to decrease the cost of capital and mitigate agency cost. First, usually carried out by external investors decreasing the cost of monitoring corporate governance can protect against agency costs. Second, effective corporate governance asymmetry to limit an information can be useful. Finally, the risk of expropriation, it can decrease by managers.

Between a corporate governance score and firm performance a positive association, by identifying six provisions of corporate governance find by (Brown and Caylor (2006)).

From many aspects firms influences by Corporate Governance, like studies which identified the relation between higher levels of CG practices and (i) Reddy et al. (2010) size, (ii) Love and Klapper (2002); Silveira et.al., (2004) liquidity (iii) da Silva and Leal (2005); Chahine and Tohmé (2009); ownership structure (iv) capital structure García-Meca and Sánchez-Ballesta (2009), (v) performance Sami et al. (2011).

From the results to increase their economic attractiveness as a way of reducing the cost of equity capital smaller.companies are impelled to have a higher level of governance have found by (Lopes and de Alencar (2010)).

Jiraporn et al. (2012) have been found that Institutional Shareholder Services (ISS) provides broad-based.comprehensive governance metrics which are used by for the measurement of corporate governance quality. Between debt and governance quality is a robust inverse association which reveals empirical evidence. High debt is significantly Firms with poor governance. It appears that debt substitutes agency conflicts are alleviating for corporate governance. Further, use empirical method that controls for endogeneity and does not merely reflect, show that poor governance quality likely brings about and higher leverage. Results are important,,because results show critical corporate decisions such as capital structure choices has a material impact of corporate governance.

Berger et al. (1997), have argued that low debt level of corporate governance reduces active monitoring and compensation, incentive of employees in an organization while high debt provides a tax shield to organizations and high debt level, reducing shocks to manage security and reduce involuntary CEO replacements and the addition to the board of major stockholders and reduce unsuccessful tender offers. The debt level of a corporate sector depends on the nature of business like bank and insurance companies has high debt level while Islamic institute has low debt level and they are performing well in their field.

Jiraporn and Liu (2008) have conducted that low level of debt firms are adopted because of weak governance (measured by staggered board). Both studies clarify because of its disciplinary characteristics of governance that entrenched managers, they find as evidence to avoid debt.

Hassan Che Haat et al. (2008) finds from the study that the impact of good Corporate governance on a firms performance has a positive and significant. How much an organization is successful, it depends on the good governance and disciplinary characteristics. They also find timely reporting and the level of disclosure are not associated with the performance of governance. The results show the relationship between performance and corporate governance in the contribute factors that disclosures and timelines are not si0gnificant.

Shleifer et al. (2000) observes from the results in an organization's principal (owner of the organization) pay salary and incentives, and spend company resources on agent with the hope of the agent will not take such action which will affect at principal decision and disadvantage the principal. Although conflicts remain same at some level of actions. He has also found from the results in an effective corporate governance, investors legal protection together with at a country level, and then it will able to increase firm value and reduce principal agent conflicts and then it will reduce the cost of equity.

Arping and Sautner (2010) have found from Dutch companies evidence. After a reform of the Dutch corporate Governance code in 2004 (Tabaksblat code.), for the purpose of analyzing the leverage of Dutch listed firms they use a difference in difference approach. Similarly Sarbanes Oxley act has developed for the development of the united state of America listed companies, the basic objective for the development of this code is for the development and improvement of the corporate governance standards of Dutch listed firms. When code is made and implement they have observed between Dutch firms and European firms, this modification provides a tidy and clear outcome, since one group (European firm) does not treat with better corporate governance while another similar group. (Dutch firms) gets treated with better corporate governance standards.. From this modification they find European firms cannot reduce leverage significantly while as compared to similar Dutch firms significantly reduce leverage. They conclude, when the increase in corporate governance, quality then it will lead to reduce debt in this way principal agent (shareholder-manager) conflicts also resolve.

Companies in different countries such as Rothwells Ltd, Enron, WorldCom, Global Crossing and Adelphia etc collapse due to weak corporate governance practices, after this a great deal of attention given to corporate governance. Chen & Findlay (2003) find to adopt a good corporate governance practices is a big challenge to business enterprises especially those business enterprises in developing countries. Claessens et al.(2000) the need for good Corporate governance is emphasized in many countries, including the Gulf countries, when in 2008 many countries are affected by financial crises.

Davies (2016) in certain circumstances, corporate governance principles and principles help to managers and employees to understand their behavior and to understandstand the need of rules and regulations and manage them according to their need. Corporate governance provides basic rules and regulation mange the business organizations, regardless of their types whether commercial or otherwise. Charantimath (2005, p.219) claim that, for the discussion of important (right) matters at the right time with the right people corporate governance brings them together at a time.

Kaen (2003) finds from the results that corporate governance is basically about who and why. It is basically concerned with managing the organisations activities and supervising the activities. Classes et al., (2000) argues that corporate governance is basically concerned with the behaviour of organization focusing on several measures such as growth, performance, efficiency and the rights of other shareholders and stakeholders.

Aguilera and Jackson (2010); Claessens and Yurtoglu (2013) and Matoussi and Jardak (2012) note from the research that framework of Corporate governance in company to company and country to country is different. They find from the results debated the question whether a common, international framework of CG would be optimal for all countries.

Oman (2001); Aguilera and Cuervo-cazurra (2004) find a number of key reasons for the need of corporate governance such as to improve the company performance so as to maximize the company profit and reduce the amount of risk which is involved in practices and fraud, to achieve sustained productivity growth and in overall economy maximize the company contribution and to overcome company vested interest.

Fan et al. (2011) on the best possible terms a good corporate governance attracts human and financial resources simultaneously as a means improves organizations performance and accountability. Hope (2003) has been found from the results that good corporate governance enables the corporation for better procedures and structure necessary to enhance the organizational performance, implementation of policies and formulation. He also noted that good corporate governance is positively correlated with the achievement of better growth rates.

Saidi (2004) finds good corporate governance, encourage the investor in outside investment and provide better corporate governance to shareholders and investors. It reduces cost of transactions and capital cost, and reinforces the rights of property which leads to the development of the capital market. In addition a crucial part of good governance are auditing standards, financial reporting and practices.

Bai et al., (2004) found for the investors a good corporate governance is a assures of return of their investments, who are beginning to show concern about the business model, which protects their investments and confidence the investor for outside investment.

Kettell (2011) Wilson (1997) has observed the foundation for good governance are most religions are from the same source and most religions highlight similar principles such as transparency, responsibility, accountability, trust.

In contrast, from an Islamic perspective, some Islamic research scholars have attempted to define explain corporate governance. Sourial (2004) noted that Islamic laws contain numerous rules and regulations and includes the moral conduct of Muslims on how to deal with economic transactions. Moreover, Elasrag (2014) noted that practices of corporate governance form conventional corporate governance is not much different from an Islamic perspective, the only difference between Islamic and conventional corporate governance is Islam prohibits certain product and practices as well as concern for all stakeholders and rather than just the shareholders.

2.3 Islamic Label and Corporate Governance

Islamic label firms provide affluent customers in the world. Thats why Saeed et al., 2001; Uddin, (2003) find from the research for several reasons organizations must understand the Islamic business ethics. Because in the world some of the more affluent represent Muslim countries. For example, alone over $800 billion in the united state of America Saudi Arabia have investments.

Byrne (2011) has been found that Business ethics as a target of investigation of illicit businesses are included. Although such illicit businesses have been ignored by business ethicists at legally and they have been violating human rights. To define unlawful businesses for authoritarian purposes in view of recent international efforts, it is time to overcome this. Indifference. Here is a more important meta-ethical question as whether unqualifiedly immoral can be declared any business. The answer to this question they deliberate by using the comparing approaches to corporate crime and to organized crime a number of counter indications are coming in the surf, ethically to common, ethical objectivity regarding war-related businesses., and for the successful business compare the ethics assumption as for businesses. He concludes, to the task of defining illicit businesses and he also finds apply their expertise on business and respect for human rights business ethicists. While Islamic label organizations do not violate human rights and they define clearly illicit business.

Askary (2001), Maali et al. (2003), and Haniffa and Hudaib (2007), are researched on the topic of social reporting and Islamic corporate reporting only notable exceptions to the analytical papers and normative papers. They find Muslims countries have cultures variable from other religions and Muslim culture has an influence factor for others and in the same way Islamic corporate governance follow Islamic law and corporate governance internal environment reflect Islamic culture.

Bruno and Claessens (2007) have found the performance of firms in which empirical evidence points to the positive effects of good Corporate governanceidentifies four areas are external finance, lower the cost of capital., operational performance and risks of infectivity good corporate governance, access to external finance. When corporate governance landers and others are satisfied with the corporate governance arrangements then decided to investments in more projects and are more likely to extend finance. Better financial performance leads to prone good corporate governance. Good corporate governance, reduce of firms to external shocks and increase robustness in the organization. Good corporate governance tends to move to lower cost of capital because the shareholders of the firms are ready to accept low return from their investment by conveying the sense of reducing risk.

Lewis (2001) has argued, From an Islamic perspective, Iislam finance promotes transparency investing, sharing risk and prudence and rather than avoid those products and services that would harm society and prohibit to shifting risk. Furthermore, on some Economy activity and underlying asset on these Islamic finance, transactions based, earning money (money is the medium of exchange goods and services) without any actual production of goods and services is considered haram from Islamic perceptive for example gambling. For example, providing equity capital to.a farmer to plant wheat, however, is allowed Taking the entrepreneurial risk to earn profit.

In this study, the effect of the Islamic label on corporate governance. With the label of Islam the corporate governance will improve and then corporate governance become good corporate governance. A good corporate governance characteristic are discipline., transparency, discipline., accountability, responsibility., fairness, social responsibility. etc, All these things are improving in corporate governance with the Islamic label. Virtually there is no literature at the Islamic label indicates good corporate governance. There is only one paper of (Hayat and Hassan, 2017) finds an Islamic label has a significant effect on corporate governance. They find Islamic label firms perform better than non-Islamic firms.

But due to this fact, there is lots of literature at Islamic finance because the Islamic. The finance industry is growing very fast in recent years because Islamic finance industries are according to Islamic rules and regulation, ethically there is honest and fair transactions are done.

According to Kuran (2004), he finds from the study that in Egypt., in 1963 Arguably the first Islamic bank was incepted (the Mit. Ghamr Islamic Bank.). Although at this time the main focus of this Islamic bank to provide Muslims, Islamic finance and Islamic banking services and initially the main focused on banking services later this industry divide into parts insurance and capital market as well. The Muslim identity of Pakistan as an attempt to strengthen Muslims at the time of partitioning of India and Pakistan Islamic finance in its current form began. Abul Ala. Maududi (19031979) the Pakistani scholar It was most notably advocated. Currently, there are over 39 countries over. 400 Islamic financial institutions operating and offering.products and services such as equities, bonds and insurance, banking, mutual funds ,so called Sukuks (Financial Institutions and General Council for Islamic Banks 2009.).

Shanmugam and Zahari (2009) finds from the study Islamic financial market is growing rapidly. The size of the Islamic financial market is modest but it is growing fifteen percent year and it gets familiarity all over the world between Muslims and non Muslims. In a 2010 estimate USD one trillion banking assets and world-wide these expecting banking assets and Musmlims communities are continuing to grow.

Ibrahim (2015) has argued that Many studies highlight the fast growing Islamic finance industry, this study is about the finance and Islamic banking. This special focus at the capital market research and Islamic finance banking. He finds Islamic finance is different from conventional finance he prove this with this argument that Islamic finance is confined to the observed investigation of its performance. Future work of the Islamic finance aims to place Islamic finance in proper theoretical settings Islamic foundation beyond the statement it is different from conventional financing. In addition, demonstrated empirically and theoretically its bearings on economic policies and well- beings such as stabilization policies and economic development, financial inclusion and economic stability is needed.

Beck et al. (2010) have Found that Islamic banks have higher asset quality, better capitalized and are a higher inter mediation ratio, but Islamic banks are less cost effective. They also find from the research evidence that Islamic banks are large cross country variation as well as Islamic banks are in different sizes and during the crises Islamic banks are not disinter. Due to their better asset quality and high capitalization listed the tIslamic banks have enhanced stock performance during the recent crisis.

In Islamic banks all the activities are performed according to Islamic law (Shariah law). In most countries they are weak contractual framework prevalent with Islamic.bank there is a response of Islamic banks to the weak contractual framework is rational because Islamic banks are equity like instruments, but due to weak conceptual framework they are debt like instruments (Aggarwal and Yousef (2000)).

Farook (2007) has found from the study the main purpose of commercial banks are to maximize the profits of the bank. He Finds normally Islamic banks also act as a commercial banks as they comply with the letters of Islamic law. Islam prohibits from riba so their profit is free from riba and Islamic banks has sukuk. Sukuk is a (Arabic word which means legal instrument) sharia compliant bonds. In the commercial banking/ minimalist sharia compliance approach , according to this approach. He also finds Islamic banks at their customers and society at large should not be put extra burden and responsibility and at primarily Islamic banks should be concerned with their stakeholders. (Depositors and shareholders).

Samad and Hassan (1999) are found in the financial market Islamic products perform well because a set of distinctive products is delivered by Islamic banks in the financial market. For this they used f.test and t.test for the determining of their significance. The study has been found, Islamic banks are less risky and more liquid thats why in financial market Islamic bank products are distinctive.

Among the people for the purpose of creating a deepening of the religious spirit and for the establishment of an Islamic society is the one of the missions of Islamic banks to work for this. On the religious spirit and religious view is the base for the existence of Islamic banks. Islamic Shariah rules and regulations are strictly followed Islamic banks and ensure all their all activities are according to Islamic laws and ensure they reflect Islamic principles from their business activities and actions (Ahmad and Hassan (2007)).

On justice, Islam is a religion that emphasizes on it. The principles of justices in Islamic provide guidance for the activity of several types of businesses. Contacts, pacts and fulfillment of promises are included in the justices. Therefore, in their business dealings, Muslims are truthful, sincere and honest and when deliver the products and services to their customers are in term of according to specification and exactness. The Islamic business principles of labor management equal treatment are encouraged justice. On the base of competencies and merits when hiring the people, then wages and payments are decided. The distribution of wealth on equitable is also included in the justice of Islam (Borgsteede et al. (2006)).

Baele et al. (2014) explain over the period 2006-2004 to 2008-2012 Using that follows more than150000 loans a comprehensive dataset from Pakistan for the purpose of comparing default rates on Islamic loans and conventional loans. From robust evidence they found the default rate on a conventional loan is more than half then the Islamic loans. Likely in big cities and during Ramadan the default rate on Islamic loans is less. In determining default loan political- religious parties increase their share of votes- suggesting. That religion either network effects or through individual goodness may play a role in it.

2.4 Corporate Governance Index

Mohanty (2003) has used the 19 measures of corporate governance with a sample of Indian 113 companies to develop a (CGI). These companies which score better governance index generate higher returns as calculated by excess stock returns and Tobins Q found by (Mohanty ,2004), Based on the corporate governance index.
Black et al. (2006) have been.developed the corporate governance index based on the 38 variables for the Korean companies. Their results showed that the corporate governance index is positively.and significantly related to Tobins Q. Improvement in corporate governance index from worst to best increases Tobins Q by 0.47. Same results found by researchers when they used market to sales ratios or market to book ratio were used. With a sample of 262 Greek firms a governance index based on a survey responded formed by (Kanellos & George, 2007). They also measure Tobin Q for firms and concluded after analysis that the market recognizes the good governance, which reflected in a higher stock price of firms.
Bin Tariq et al. (2008) have conducted the research to find out the experiential facts in support of P/E, Price to Book ratio, ROE and. ROA are used for the measurement of practices on firms financial performance by the impact of corporate governance. Research results show that CGI scores are positive and significantly associated with financial performance indicators expect P/E.
CAPM model is used for the calculation of the on the cost of equity examined by the impact of equity of corporate governance. Results show the negative relation between managerialownership and board size with the cost of equity, and positive between board independence, audit committee independence with cost of equity (Ali Shah et al., 2009).
Bebchuk et al. (2004) have developed an entrenchment index (E-index) on the basis of provision laid down in investor Responsibility Research Center (IRRC). There are 24 provisions in IRRC which are supposed to give benefit to management. These provisions may or may not abusive to shareholders. E.Index was

comprised of 6 provisions. 4 provisions were constitutional, related to preventing majority to takeover readiness to avoid the hostile takeover situation. They found a reasonable upward movement in E. Index from 1990 to 2002 for the firms in US. Gompers et al. (2003) developed index and there was a high correlation between E. index.

The regression equation is generated in results coefficient of E. index, was significant and negative. Bebchuk et al. (2004) have found from the study that an increase in the index level significantly reduces the value of firm.as measured by Tobins. Q During the period from 1990 to 2004 in addition with negative large abnormal returns.

Bown and Caylor, (2006) have developed governance score. Related to firms external and internal governance, a governance index is based on 51 provisions. They show in their results that index containing seven provisions by the index comprised of large sets of provisions. Their results supported the research work of Bebchuk et al. (2004) findings, who reported that only a set composed of few provisions, marked by corporate governance data providers is more associated with firm valuation. Their results also supported the work of Cremers and Nair (2005), who claimed that internal and external governance are connected of firms value.

The governance provisions that they have combined was comprised of five provisions that was related to accounting policies and four for total provisions was related to the audit. They found that none of these provisions have associated with a firms value. The separated 7 provisions from 51 provisions and named this group as GOV-7 and remaining set of previsions was given name Rem44. They regressed Tobins Q a measure of firm valuation on Gov-7 with their control variables. The results are found significant on Gov-7 and insignificant on Rem44. These results established the domination Gov-7 over Rem44. Data is again tested by extending the years for further assessment. It was developed that Gov-7 was positive and significant while Rem44 was insignificant confirming the earlier results that showed the domination of Gov-7.

The relation is casual between bad Governance and low or negative returns. It is expected that market respond relatively to poorly governed firms. To test this, they used the sample of 9917 for years to develop g-index. They regressed G. index and operating performance with control variables. With the significance that firms with weak shareholders right demonstrate operating under performance they found. Their results were vigorous to controls for takeover activities. In general, Poor stock returns are due to weak corporate governance this assumption is not correct. Their results are found not support the assumption.

Zheka (2006) has found from the research the effect of overall corporate governance as well as different components of corporate governance of performance of the open joint stock firm in Ukrain. He has used corporate governance data for years from 2000 to 2002, of 5000 firms. He is also composed overall corporate governance index (UCGI) and sub-indices of corporate governance. He is used two sets of variables to test hypothesis. First, he used a regional variation in social trust factors to mechanism for corporate governance choices in cross sectional sample. His measurements included include diversity, religion and cultural diversity across 24 regions in Ukraine.

He carefully evaluates the credibility of his measurements. He has rejected his hypothesis that his instrument in weak on the basis of the critical value of stock yoga test. Therefore, he has used two staged least squares estimator and two staged generalized method movements estimated to account for any chance of heteroskedasticity. Moreover, he is used time invariant variables plus time varying variable as tools after first differencing transformation. In this care null hypothesis is not rejected that tool is weak.

Lehn et al. (2007) have conducted a research to test if causality runs if causality runs from corporate governance level to firm valuation or the other way around. This work is the extension researches conducted during 1990 for corporate governance and firm valuation by different researchers. They have used corporate governance indices which are developed by Gomers et al. Bebchuk et al. Their result shows that negative the association exists between market to book value and the corporate governance indices. Their results of their were in line with the results of. Gompers et al. & Bebchuk et al.

Black et al. (2007) have conducted research on the relationship.between the firms market value of Russian firms and the corporate governance level. For a sample time period, they have composed corporate governance index from different areas covering different portions by using 6 indices. After that a pooled corporate governance index is constructed. Across all specifications the combined index is robusted statistically and economically, including pooled OLS with firm, index clusters, firm fixed effects and firm index random effects. There is a strong relation between firm value variable and combined index I.e. market to sales or market to book value TobinQ.

Hodgson et al. (2011) have analyzed the relationship among firms performance and corporate governance index is construct by the Thai Institute of Directors and McKinsey & Co. For the Thai companies. They are used for the data years from 2001 to 2006 for their analysis. They have found that there exists a direct relationship with the significance between corporate governance index and company performance. In their study firms performance is measured by return on assets, return on equity, and cash from operations, free cash flow and sales per employee.

Bhagat and Bolton (2008) have been arguing that the relationship between corporate governance and firms performance. They are used seven different corporate governance measures for their investigation. They have found corporate governance calculated by G-index, E- index, share owned by the Board of Directors and chairman duality is positive and significantly correlated with the firms performance as calculated by return on assets and Tobins Q. Board independent is found negatively correlated with performance.

Black et al. (2010) explain the association among the market value of the firm and firm level corporate governance for Korean companies. They have found a. +ive and significant association among Korean corporate governance index (KCGI) and market value of the firm. It was also observed that Korean Corporate Governance index (KCGI) has a significant association with further evaluation of firm valuation like the market valuevalue of equity and book value of equity.

Ertugrual and Hedge (2009) have found the association of corporate governance and firms performance. They are used the rating providing by three US companies to investigate.the relationship between corporate governance rating and stock market performance.. The results show weak evidence for the ability of overall ratings to classify.companies with governance related.problems. The results are consistent with the concept that it is not easy to extract a complex corporate governance mechanism into a single overall rating.

Chaghadari and Chaleshtori (2011) have studied the impact of corporate governance and financial performance. Four board characteristics, i.e. board independence, CEO duality, ownershipstructure and and board size has used to measure the corporate governance of the firm and financial performance are measured by ROE and ROA. As a control variable leverage and firm size are used as there is known to have an impact on the firms performance. In statistical results, It is found between ownership structure, board independence and board size, there is no significant relationship and there is a negative association among CEO duality and firm performance.. Corporate governance has a strong positive association with return on equity and sales growth and weak positive association with a.net profit margin (Yasser , 2011).

Renders et al. (2010) investigates the relationship between corporate governance rating and firms performance. They are used data of companies from 14 different European companies over a period. of 5 years from 1999 to. 2003. The results produce by them had shown that corporate governance rating has a positive and significant effect on the firms performance. This result revels that corporate governance ratings are relevant and by improving corporate governance a company could also improve its performance.. They also report that companies, operating in countries which have strong shareholder protection laws have a higher corporate governance rating, but the impact of corporate governance is low on the performance of the company. Whereas the companies operating in countries where shareholders protections laws are weak have greater impact on the firms performance with improving corporate governance rating. They also established the evidence that corporate governance is improving over, the time for European companies.

Corporate governance is a multi-functional role and measured through different variables in many research studies. Variables used in research studies to measure the corporate governance index of a company include ownership structure, ownership concentration and board effectiveness, etc. following literature review is conducted for some focused variables as measure the corporate governance index; Sun and Tong, (2003) have analyzed the performance of 634 state owned companies on china stock exchanges. Their results show that difference in ownership structure, which have an impact on corporate governance of the firm, has significant impact on the firms performance.

La Porta et at., (1999) have concluded in their study that typically, families or state controls the management of the firms where legal protection to investors in weak. Controlling shareholders have significant power over firms management and cash flows. Morck et al, (2000) also argues that ownership concentration has great importance in controlling the firm and reported that majority shareholders may pursue their own interest instead of working for all shareholders.

Fama and Jensen (1983) have suggested in their research that effective separation of directors by including non-executive directors on the board confirm the effective management and control of the company. Dalton and Kesner, (1997) explain the important decisions are taken from the post of the chief executive officer for running business. Board of directors gets weakened if it is chaired by the (CEO) . When the chairman of the board of directors is independent and does not hold the position of Chief Executive Officer, management domain will reduce.

Yermack , (1996) have conducted on the board size. He is concluded in his research that there exist a negative relation between board size and firm valuation. Barnhurt and Rosenstein, (1998) have recommended that the value of the firm may increase with the presence of non-executive director on the board. Dar et al., (2013) have conducted a research study on corporate governance of oil and Gas companies. They have concluded that the size of the board should be limited and the post of Chief Executive officer and chairman should be occupied by different persons.

Different committees like remuneration committee, audit committee, etc are under the corporate governance system to take important decisions. The audit committee is the most important part of a corporate governance system argued by the

Klein (2002). Above discussed features of corporate governance help to improve the quality of financial reporting with improvement in overall company managements which positively affects the profits and helps to reduce costs.

It is really important to have an independent board to practice true corporate governance (Mcgee, 2008). Independent board structure is not only efficient for governance, but it can increase quality, protection to minority shareholders as well as institutional shareholders and stock performance of an organization (Chung & kim, 2008). As McKnight and Weir (2008) that the board lacking independent directors means its lacking expert decision making and unbiased knowledge.

Booneam, Field, karpoff and Rageja (2007) prove that board size is positively related to the firm growth and performance. The institutional owner always prefers a well organized board as a board in their eyes in the organization. Investor control organization with the help of board. Therefore, institutional investors always concerned about board size as it works as a bridge and also takes care of their interest.

From the above literature , it is concluded that Islamic Label corporations follow Shariah compliance rules and regulations. Shariah compliant firms prohibit to invest in alcohol, pornography. Shariah compliant firms invest their money, which is free from Ribba.

The main principle of Islamic finance label industry is (i) prohibit in the investment of harm like pornography sales of alcohol (ii) prohibit the use of gharar like excessive risk-taking (iii) Invest in such organizations which follows honesty and moral society and pay zakat in industry assets (iv) prohibit the use of riba in business.

In recent decades, on the governance of the large corporations around the world, the financial crisis arose an astonishing. For a series of large corporate governance scandal concurrently are sat the origin after in the 1997 Asian financial crash and in 2008 a global financial storm. On the matter of corporate governance, the world business community analysis the unstable and insecure because the researchers thoughts are confined and at the event, practices for the sound corporate governance around the world business community feel the intense need.

A very much composed regulatory framework can play an essential part to help in a corporate governance guideline of law in any country. Regulatory bodies are formed by the legislature generally to ensure or secure the smooth and obvious possibility of its overall population. Regulatory authorities, by and large, holds two fundamentals; development of the rules or strategies, and strict execution or approval of these gauges or standards. In this manner, it doesn't just set the guidelines and controls of the rules, however, in addition, safeguards, or secures the consistency of these standards by every one of the players in the business sector.

In the developed and developing countries, the hottest topic is corporate governance. Most researchers thought for the worldwide consideration corporate governance is concluded the shareholders interest and performance of the firm. Corporate governance dependences on the economy, political and geographical framework that why the structure in which corporate governance is organized varies among countries. The impact of the Islamic label on corporate governance is significant. It improves the performance, size, growth, and capital structure of the firms. On the basis of above literature the following hypothesis are drawn:

H_0**:** Islamic label indicates good corporate governance.

H_1**:** Islamic label does not indicate good corporate governance.

Chapter 3

Research Methodology

3.1 Data Description

The current study aims to explore how the Islamic label indicates good corporate governance. The sample period is of 10 years from 2006 to 2015. In this study data of 108 non financial sectors for 10 year data is used, and are equally distributed on Shariah compliance securities and non Shariah compliance securities listed at PSX. Secondary data collected from companies annual reports.

3.1.1 Variable Specification

3.1.1.1 Dependent Variable

3.1.1.2 Corporate Governance Index

Corporate governance is measured by using different component of corporate governance. For this purpose use Chief Executive officer duality, Shareholder activism, Audit committee independence, Institutional ownership, ownership concentration, Shareholder activism. The Corporate governance index is made by using PCA Principal component analysis (PCA) is a statistical procedure that uses an orthogonal transformation to convert a set of observations of possible correlated variables into a.set of values of linear uncorrelated variables called principal components. For the purpose of classifying Indian cement making companies based on 44 original financial variables. They use a cluster analysis and PCA methods (De et al., 2011). In this study for the purpose of data evaluation of the corporate governance index has been used Principal component analysis (PCA). Based on the non-rotated factor matrix estimator is obtained PCA procedures factors. For a good function, two adequate measures are verified for the sample: (i) Kaiser-Meyer-Olkin (KMO) between the errors against the correlations which set the correlation between variables; with results over 0.5 considered acceptable, the larger the results these are the better for the study. In this study also for the rotation of the factor matrix columns use the varimax criteria. Namely, the correlation between the factors and the variables, for the factor loads than greater than values 0.5 recommend by (Hair et al, 2009). And (ii) Measures of sample adequacy distribution of variables, in which values are greater than 0.5 accepted. In this study expect as a.result of the PCA technique at least 50% of the original variables explain the factors. The cluster analysis in order to be applied, the scores are calculated for each observation for each factor. Based on the factor scores, hope for a.number of groups that are well distinguished for the results of the cluster analysis.

3.1.2 Independent Variable

3.1.2.1 Islamic Label

The independent variable in this study is Islamic label. Which is the meaning of companies made according to Islamic rules and regulation. Islamic label is a dummy variable. A Dummy variable is equal to 1.if a firm is Islamic and 0 otherwise.

3.1.2.2 Other Variables

The following are other variables in this study.

3.1.2.3 Leverage

Baker and Wurgler (2002), leverage is the ratio.of debt to equity. Leverage is calculated.by total debt of the firm.divided by its total equity.

$$\text{Leverage} = \frac{\text{Total debt of the firm}}{\text{Total.equity of the firm}} \tag{3.1}$$

3.1.2.4 Sales Growth

The growth rate can be measured through assets, sales and number of employees, but in this study growth rate is measured by taking the difference between current sales and previous year sales of the firm (Dixon et al. (2015)).

$$\text{Sales growth} = \frac{\text{sales growth at year t+1- sales growth at year t}}{\text{sales growth at year t+1}} \tag{3.2}$$

3.1.2.5 Firm Size

It will be calculated in other ways as well, but in this study firm size has been calculated by taking the natural log of total assets as used by (Burke and Day, 1986) and (Shumway, 2001).

$$\text{Firm size} = \text{Ln (total assets)} \tag{3.3}$$

3.1.2.6 Firm Age

Shumway (2001) argues that listing.age is the economically.most meaningful measure.of firm age, since listing is a defining.moment in a companys life.

$$\text{AGE} = \text{present year - incorporation year} \tag{3.4}$$

3.1.2.7 Return on Assets

It explores that how efficiently.a firm is utilizing.its assets for value.creation for all of its stakeholders.(Bodie et al. (2002)). It is measured.by using a formula:

$$\text{ROA} = \frac{\text{Earning before interest tax}}{\text{Total Assets}} \tag{3.5}$$

3.1.2.8 Board Size

According to Hayat and Hassan (2017) use board size as a control variable and find its effect on the corporate governance index. Board Size is the number of directors serving on a corporate board. Board is the highest decision making body in a firm and has the responsibility to direct the efforts of senior management. Board size is measured in the following way;

$$\text{BS= ln of board members} \tag{3.6}$$

3.1.2.9 Board Independence

Board composition means.the presence of executive.and non-executive directors.on the board of the company. Independent directors are invited.onto the board in.order for oversight, management on behalf.of shareholders (Baysinger and Butler, 1985). This variable is calculated.by dividing the number.of outside directors.by the total board size.

$$\text{Bi} = \frac{\text{total numbers of non executive directors on the board}}{\text{total number of directors on the board}} \times 100 \tag{3.7}$$

3.1.2.10 Model Specification

The base specification of this model is a panel based OLS regression in which the dependent variables is the corporate governance quality of Pakistan Stock Exchange Limited firms from 2006 to 2015 and the independent variables are an

Islamic dummy, other variables are board size, firm size, firm age,board independence, leverage sales growth, and roa. Econometrically, regression equation models are expressed as follows:

$$CG_{i,t} = \beta_0+\beta_1 ISL_{i,t}+\beta_2 fa_{i,t}+\beta_2 fs_{i,t}+\beta_4 Lev_{i,t}+\beta_5 Roa_{i,t}+\beta_6 BI_{i,t}+\beta_7 BS_{i,t}+\beta_8 Sg_{i,t}+\epsilon_{i,t} \tag{3.8}$$

Where as,

Islamic label = Islamic label is a dummy variable. A Dummy variable is equal to1 if a firm is Islamic and 0 otherwise.
Firm age = Firm age of the company shows the age of the firm. When a firm is started working and it registers at the Pakistan stock exchange.
Firm size = Firm size shows the how much assets of the firm. Firm size is a natural log of total assets.
Sales growth = Sales growth shows the current year increase in sales. Sales growth is basically a comparison difference between current sales and previous year sales.
Leverage = Leverage is the ratio between total debt and total equity.
Board size = Board size shows the total member on the board. Board size logs of board members.
Return on assets = Return on assets shows the performs of firm in the market. It explores that how efficiently a firm is utilizing its assets for value creation for all of its stakeholders.

3.1.3 Regression Analysis

Panel data regression analysis has been used as the tool for the purpose of analysis because the nature of the data is time series. This analysis involves common, fixed and random effect models.

3.2 Econometric Model

3.2.1 Panel Data Analysis

Panel data set consists on both of time series data and cross sectional data, some has applied on this study. When panel data have same series of time observations for every cross section and variable it known as balanced panel. When series of time observations differs among cross sections the panel is known as an unbalanced panel Gujarati (2008). There are different models used in panel data analysis. Each model having different assumptions for this interpret.

3.2.2 Common Coefficient Model

The first model of common coefficient model. It has constant interpreted across all cross sections and time period.
General equation of common effect model is:

$$r_{it} = \alpha_0 + \beta_1(X)_{1it} + \mu_{it} \tag{3.9}$$

is dependent variable and X is the list of independent variables term.

3.2.3 Fixed Effect

the second model is fixed effect model which describes that interpret is different for all cross sections.
General equation for fixed effect model is ,

$$r_{it} = \alpha_0 + \beta_1(X)_{1it} + \beta_2(X)_{2it} \therefore \beta_k(X)_{kit} + \mu_{it} \tag{3.10}$$

In this study, specifically the model for Islamic label can be written as follows,

$$CG_{i,t} = \beta_0+\beta_1 ISL_{i,t}+\beta_2 fa_{i,t}+\beta_2 fs_{i,t}+\beta_4 Lev_{i,t}+\beta_5 Roa_{i,t}+\beta_6 BI_{i,t}+\beta_7 BS_{i,t}+\beta_8 Sg_{i,t}+\epsilon_{i,t} \tag{3.11}$$

There are two different test are used to determine which of the three models should be used for application of panel data analysis.

3.2.4 Redundant Fixed Effect Test

This test plays the role of decision maker between common and fixed effect model. If the f. stat and chi-square of cross sections is ¡ 0.05 then fixed effect model will be use. If a p- value is greater then 0.05 than common co. efficient model is applied.

3.2.5 Random Effect Model

In random effect model, interpret considered as term and it do nothing with the cross sections (companies). This model explains the variation among the different companies. It offers following benefits.

• Random effect model has fewer parameters to estimate with comparison the fixed effect model.

• It provides the permission for additional independent variables with same number of observations.

General equation of random effect model:

$$r_{it} = \alpha + \beta_1(X)_{1it} + \beta_2(X)_{2it} \therefore \beta_k(X)_{kit} + (\nu_i + \mu_{it}) \tag{3.12}$$

Where (above all equations) it is dependent like corporate Governance. X list of independent variables. I represent different firms at time t. represents error term. After fixed and random effects results hypothesis is drawn for the decision machining fixed effect model is appropriate, whether the random effect model is appropriate. The hypothesis are:

H_0**:**Common effect model is appropriate.

H_1**:**The fixed effect model is appropriate.

For the verification of hypothesis Hausman test is run.

3.2.6 Hausman Test

This test used to decide between random and fixed effect model. If the f-stat and chi-square of cross section is less than 0.05 than fixed effect model will be use. If p-value is insignificant or more than 0.05 than common random effect model is applied.

Chapter 4

Results and Discussion

This section of the study provides the detail empirical and statistical evidence of the research. These empirical evidence is structured to provide in depth results and interpretations of different statistical tests. These tests include descriptive statistics, correlation analysis, Houseman tests and regression analysis.

4.1 Descriptive Statistics

Table 4.1. shows the descriptive analysis for all variables of this study for the period 2006 to 2015. The behavior of the data is examined to assure its accuracy before running other statistical tests. Descriptive statistics show the general behavior of data including dependent variable as well as all independent variables. Here the descriptive statistical table contains the value of mean, minimum values, maximum values, and values of standard deviations of all variables. The mean value shows the average of data, where as standard deviation shows how it deviates from mean. Minimum and maximum value is the high and low difference in data. The results of a descriptive analysis of all variables are given below in Table. Descriptive statistics are very important and that provides an important summary and information while performing empirical analysis. Descriptive statistics of all variables during the study period, 2006 to 2015 are shown in the below table. The mean value of the CGI is 0.178 and its standard deviation is 0.033 . And minimum value is 0.104 and maximum value is 0.317. The mean value of the firm Age is 36.662 and its standard deviation is 15.005. and minimum value is 7.000

Table 4.1: Descriptive Statistics for the Period of the 2006-2015

Variables	Mean	Median	Maximum	Minimum	Std. Dev.
CGI	0.178	0.172	0.317	0.104	0.033
ISI	0.426	0	1	0	0.494
LEV	0.256	0.195	1.499	0.017	0.182
FA	36.662	37	73	7	15.005
FS	11.266	9.819	19.841	2.820	3.947
SG	0.071	0.104	1.028	-1.338	0.278
ROA	18.242	17.1	49.7	-0.039	9.129
BI	0.438	0.428	0.571	0.285	0.093
BS	8.319	8	15	5	1.698

Note: CGI= corporate Governance, Fs =firm size, FA =firm age, Lev =leverage, SG =sales growth, ISL =Islamic Label, BI= board of independent, BS= board size, ROA= return on assets.

and maximum value is 73.000. The mean value of the leverage is 0.256 and its standard deviation is 0.182. and minimum value is 0.017 and maximum value is 1.499 . The mean value of the sales growth is 0.071 and its standard deviation is 0.278 and minimum value is -1.338 and maximum value is 1.028 . The mean value of the firm size is 11.266 and its standard deviation is 3.947. and minimum value is 2.820 and maximum value is 19.841. The mean value of the Islamic Label is 0.426 and its standard deviation is 0.494 . and minimum value 0.000 is and maximum value is 1.000. The mean value of the Board of independent is 0.438 and its standard deviation is 0.093 . and minimum value 0.285 is and maximum value is 0.571. The mean value of the Board size is 8.319 and its standard deviation is 1.698. and minimum value 5 is and maximum value is 15.

4.2 Correlation Matrix

To explore the relationship between dependent and independent variable which are included in model, and also to investigate the potential multicollinearity problem among variables, correlation analysis is performed. The correlation analysis results between independent and dependent firm specific variable are reported in table 4.2. Correlation matrix is a technique that explains the dependency of multiple variables at the same time. The strengthened and directional relationship among the variables is measured through these techniques. However, it is also considered as a weak tool for analysis, but still it is a wide approach used in +1, which tells the degree of association between the variables either positive or negative.

Values closer to +1 depict that the two variables are strongly positively related/affecting each other, whereas the values closer to -1 depict that the two variables are strongly negatively related/affecting each other. The correlation between independent variables should not exceed 0.7 to prove no multicollinearity problem among in depended variables. The result of the correlation matrix is given below in the table 4.2.

According to Tabachnick and Fidell (1996), if the correlation value exceeds form 0.7 then the data have multicollinearity problem. Furthermore, according to the above correlation analysis these variables have no multicollinearity problems because almost all the correlation values are below the 0.7 range.

Table 4.2 comprise a correlation analysis of all variables which used in this study. The value of -0.054 indicates negative correlation between firm size and corporate governance index.The value of 0.013 shows positive correlation between Islamic Label and corporate governance index. The value of 0.014 shows positive correlation between Leverage and corporate governance index. The value of 0.107 shows positive correlation between firm age and corporate governance index. The value of -0.054 shows a negative correlation between firm size and corporate governance index. The value of -0.006 shows a negative correlation between sales growth and corporate governance index. The value of -0.007 shows a negative correlation between return on assets and corporate governance index. The value of 0.213 shows positive correlation between board of independent and corporate governance index. The value of 0.742 shows positive correlation between board size and corporate governance index. The value of 0.155 shows positive correlation between leverage and Islamic label. The value of 0.072 shows positive correlation between firm age and Islamic label. The value of -0.035 shows a negative correlation between firm size and Islamic label. The value of 0.017 shows positive correlation between sales growth and Islamic label. The value of -0.236 shows a negative correlation between return on assets and Islamic label.

The value of -0.216 shows a negative correlation between board independent and Islamic label. The value of -0.184 shows a negative correlation between board size and Islamic label. The value of -0.015 shows a negative correlation between firm age and leverage. The value of -0.171 shows a negative correlation between firm size and leverage. The value of -0.007 shows a negative correlation between sales growth and leverage. The value of -0.007 shows a negative correlation between sales growth and leverage. The value of -0.312 shows a negative correlation between return on assets and leverage. The value of -0.312 shows a negative correlation between return on assets and leverage. The value of 0.030 shows a positive correlation between board of independent and leverage. The value of -0.008 shows a negative correlation among leverage and board size.

Table 4.2: Correlation Matrix

	CGI	ISL	LEV	FA	FS	SG	ROA	BI	BS
CGI	1								
ISL	0.013	1.000							
LEV	0.014	0.155	1.000						
FA	0.107	0.072	-0.015	1.000					
FS	-0.054	-0.035	-0.171	0.010	1.000				
SG	-0.006	0.017	-0.007	-0.019	0.008	1.000			
ROA	-0.007	-0.236	-0.312	-0.023	0.077	0.008	1.000		
BI	0.213	-0.216	0.030	-0.062	-0.091	0.003	0.034	1.000	
BS	0.742	-0.184	-0.008	-0.069	-0.041	-0.004	0.010	0.21	1.000

Note: CGI= corporate Governance, Fs =firm size, FA =firm age, Lev =leverage, SG =sales growth, ISL =Islamic Label, BI=board of independence, BS=board size, ROA= return on assets.

4.3 Multicollinearity Check of the Independent Variables for the Period of 2006 to 2015

If the correlation between independent or predictor variables is very high, then the issue of multicollinearity arises. It may affect the regression results because instead of affecting the dependent variables independent variables start affecting each other. So, overall results get affected. The check the multicollinearity issue VIF variance inflation factor is used. For the further confirmation, variance inflation factors (VIFs) are computed as VIFq = 1 / (1 q), where q is the correlation coefficient obtained from regressing explanatory variable, q, on the remaining explanatory variables in the model. VIFs results are essentially free from any serious multicollinearity among the explanatory variables. The variance inflation factors reported in the table, ranging from 1.146682 to 1.078408, are evidence that there is no significant multicollinearity among these explanatory variables.

Table 4.3: Multicollinearity Check

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	3.12E-05	74.85525	NA
ISLAMIC-DUMMY	1.94E-06	2.062084	1.146682
LEVERAGE	1.46E-05	3.439215	1.146035
FA	1.87E-09	7.00604	1.009283
FIRM-SIZE	2.81E-08	9.554759	1.046217
GROWTH	1.32E-07	1.122777	1.034744
ROA	5.80E-09	5.76889	1.161721
BI	5.12E-05	24.52128	1.088628
BS	1.54E-07	26.68819	1.078408

NOTE: CGI= corporate Governance, Fs =firm size, FA =firm age, Lev =leverage, SG =sales growth, ISL =Islamic Label, BI= board of independence, BS= board size, ROA= return on assets.

4.4 Hausman Test

Islamic label and corporate governance

Hausman test is carried out for the sample of 108 firms for the period of 2006 to 2015 using the corporate governance index as a dependent variable. The null hypothesis of the Hausman test is that random effect is consistent and efficient and the alternative hypothesis are fixed effect that is consistent and more suitable. From the above result, it is clear that value of probability is insignificant and greater than 0.05, above the significant level, hence the study accepts the null hypothesis and reject the alternative hypothesis, indicating that the appropriate model is a random effect model. Hence this study considers the random effect model as its final model to be used.

Table 4.4: Hausman Test

Correlated Random Effects			
Test cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	7.860411	8	0.4472

Random Effect Model

Table 4.5: Random Effect Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.034399	0.005933	5.797594	0.000
ISL	0.010076	0.003265	3.085996	0.0021
Lev	0.006315	0.003322	1.901232	0.0576
FA	0.000346	8.86E-05	3.906148	0.0001
FS	-0.00022	0.000119	-1.88298	0.06
SG	0.000264	0.000248	1.065967	0.2867
ROA	-1.42E-05	6.30E-05	-0.22597	0.8213
BI	0.012594	0.005921	2.126904	0.0337
BS	0.014672	0.000412	35.61813	0.000
R-squared	0.582543			
F-statistic	172.1641			
Prob(F-statistic)	0.000			

NOTE: CGI= corporate Governance, Fs =firm size, FA =firm age, Lev =leverage, SG =sales growth, ISL =Islamic Label, BI= board of independence, BS= board size, ROA= return on assets.

The above table shows the relationship between corporate governance index (CGI) and Islamic label (ISL). In this study corporate governance index is the dependent variable. Islamic label is a dummy variable. A dummy is equal to 1 if a firm is Islamic and 0 otherwise. Corporate governance index is measured by using different component of corporate governance. For this purpose use Chief Executive officer duality, Shareholder activism, Audit committee independent, Institutional ownership, ownership concentration, Shareholder activism. The Corporate governance index is made by using PCA. The relationship between ISL and CGI shows the significant and positive relationship. ISL has a coefficient value 0.010076 and p.value of 0.000. it means that the 1 percent change in the ISL would lead to a one percent change in the CGI. It means that when Islamic label is used as a marketing tool and quality indicator, They are able to increase better corporate governance.

Leverage results show that the value of the coefficient is 0.006315 with the p. value

0.0576, which is significant A positive sign the coefficient shows that a one unit increase in leverage. Which would lead to the 0.6315% increase in the CGI. It means as a discipline devise low debt level increase the good corporate governance, which has explained by Arping and Sautner (2010).

Firm age results show that the value of the coefficient is 0.000346 with the p. value 0.0001, which is significant A positive sign the coefficient shows that a one unit increase in firm age. Which would lead to the 0.0346% increase in the CGI. It means older firm shows better corporate governance, which has explained by (Rodrigo & Andre, 2016).

Board independence results show that the value of the coefficient is 0.012594with the p. value 0.0337, which is significant A positive sign the coefficient shows that a one unit increase in board independence. Which would lead to the 1.2594% increase in the CGI. Board size results show that the value of the coefficient is 0.014672 with the p. value 0.000, which is significant A positive sign the coefficient shows that a one unit increase in board size. Which would lead to the 1.4672% increase in the CGI. It means . Large boards will have more expertise, but might be less efficient in making collective decisions. The optimal board size is a choice variable that needs to be constantly adjusted given changes in the economic and regulatory environment (Iliev and Roth (2018)).

The R squared value shows that 58% variation occurred in the corporate governance index (dependent variable) are explained by the independent variable.

Chapter 5

Conclusion

The empirical study explores the relationship between Islamic label Shariah compliance and non shariah compliance. And the behavior of non financial sector towards corporate governance. 108 firms (54 Shariah compliant firms and 54 non Sharish compliant firms) annual non financial data have been obtained from non financial sectors firms listed in a Pakistan Stock exchange for the period of 2006 to 2015 and Islamic label firms are identified with dummy variable. Corporate governance is measured by creating its index This study examines whether shariah compliance firms with the Islamic label indicate good corporate governance. Such a outcome may be predictable because Islamic label firms use low leverage. Islamic label firms use high equity level and low debt level and recent evidence indicates governance as a mechanism for disciplining managers then leverage can substitute for corporate governance. (Jiraporn et al. (2012) and Arping and Sautner (2010)). From this analysis, it shows firm with low leverage have better corporate governance.

Moreover, after applying the panel based OLS estimation technique, it is found that Islamic label Shariah compliance firms have significant positive impact on corporate governance. This is one of the first study that established empirical evidence of a higher usage of corporate governance in Shariah compliance and non Sharish compliance firms in Pakistan context firms.

However, in this study finds considerable differences in the corporate governance index between Shariah compliance and conventional firms. Moreover, From the

results find that Islamic dummy is insignificant, when it regress Islamic label, corporate governance and other variables (through measure for fixed effect model) and find the impact of Islamic label on corporate governance is significant, when regress corporate governance index on an Islamic dummy and other variables (while accounting for common and random effects). This finding is in contrast with the more common that an Islamic label for financial products signals positive attributes such as lower risk Adamsson et al. (2014).
In addition, leverage and firm age are directly related to corporate governance. This empirical finding found also subsidizes some significant practical policy application. This study provides evidence of corporate governance in Islamic label firms (shariah and non Sharish compliance). It provides basic guidelines for policy makers to develop and encourage the corporate governance channel. It is also helpful to enhance and promote the Islamic finance in Pakistan and build trust and better governance level and discourage the conventional mechanism.
Pakistan is a Muslim country. It is established on the basis of the teaching of Islam. The citizens of the Islamic republic of Pakistan strongly demanded and recommend for their investment a system which is properly based on the Islamic financial system. Islamic companies follow shariah compliant. This is automatically improving company performance.

5.1 Recommendations

Based on these empirical evidences, it is the need of the time for legislative authority to improve the mechanism of corporate governance. In this study Islamic label is used as a marketing tool and quality indicator. This is analyzed that Islamic label indicate good corporate governance. Islamic label stock (sharish companies) performs better than other (non sharish) companies stocks. For this purpose sharish compliance firms and non sharish complinance firms data analysis. On the basis of results this study suggests that legislative authority needs to improve the corporate governance mechanism and encourage Sharish compliance firms. The impact of the Islamic label on corporate governance is significant.Although, this empirical study has many practical implementations. But this study is done in Pakistan. So this study has some unobserved factors and some limitations. The results of this study cannot be generalized to all over Pakistan because this study only limits to the nonfinancial sector of Pakistan. The data are collected from high capitalized firms that public their financial information regular basis and which are listed on the Pakistan stock exchange.

5.2 Future Directions

This study explored the relationship of Islamic label and corporate governance firms in Pakistan context. The findings of this study are not established over the financial sector. This study also sheds light on low level of corporate governance in Islamic label firms and non Islamic label firms. So this open call for research to conduct research on the role of corporate governance in financial distress or bankruptcy and also on the financial sector.

Bibliography

Abu-Tapanjeh, A. M. (2009). Corporate governance from the islamic perspective: A comparative analysis with oecd principles. *Critical Perspectives on accounting*, 20(5):556–567.

Adams, R., Almeida, H., and Ferreira, D. (2009). Understanding the relationship between founder–ceos and firm performance. *Journal of empirical Finance*, 16(1):136–150.

Adamsson, H., Bouslah, K., and Hoepner, A. (2014). An islamic equity premium puzzle. In *ICMA Working Paper*. Henley Business School, University of Reading.

Admati, A. and Hellwig, M. (2013). Does debt discipline bankers? an academic myth about bank indebtedness.

Aggarwal, R. K. and Yousef, T. (2000). Islamic banks and investment financing. *Journal of money, credit and banking*, pages 93–120.

Ahmad, A. U. F. and Hassan, M. K. (2007). Regulation and performance of islamic banking in bangladesh. *Thunderbird International Business Review*, 49(2):251–277.

Al-Bukhari, M. I. I. (1986). *The translation of the meanings of Sahih Al-Bukhari*. Kazi Publications.

Albrecht, T., Blomley, M., Bolondi, L., Claudon, M., Correas, J.-M., Cosgrove, D., Greiner, L., Jäger, K., De Jong, N., Leen, E., et al. (2004). Guidelines for the use of contrast agents in ultrasound-january 2004. *Ultraschall in der Medizin-European Journal of Ultrasound*, 25(04):249–256.

Ali Shah, S., Butt, S., and Hassan, A. (2009). Corporate governance and earnings management an empirical evidence form pakistani listed companies.

Apadore, K., Zainol, S. S. B., et al. (2014). Determinants of corporate governance and corporate performance among consumer product industry in malaysia: A theoretical model. *International Journal of Academic Research in Accounting, Finance and Management Sciences*, 4(2):159–165.

Arping, S. and Sautner, Z. (2010). Corporate governance and leverage: Evidence from a natural experiment. *Finance Research Letters*, 7(2):127–134.

Baele, L., Farooq, M., and Ongena, S. (2014). Of religion and redemption: Evidence from default on islamic loans. *Journal of Banking & Finance*, 44:141–159.

Baker, M. and Wurgler, J. (2002). Market timing and capital structure. *The journal of finance*, 57(1):1–32.

Baron, D. (1999). *Moses on management: 50 leadership lessons from the greatest manager of all time*. Simon and Schuster.

Bashir, A.-H. M. (1996). Investment under profit-sharing contracts: The adverse selection case. *Managerial Finance*, 22(5):48–58.

Baysinger, B. D. and Butler, H. N. (1985). Corporate governance and the board of directors: Performance effects of changes in board composition. *Journal of Law, Economics, & Organization*, 1(1):101–124.

Bebchuk, L. A., Cohen, A., and Ferrell, A. (2004). What matters in corporate governance?, harvard law school john m. olin center discussion paper no. 491.

Beck, T., Demirgüç-Kunt, A., and Merrouche, O. (2010). *Islamic vs. conventional banking: Business model, efficiency and stability*. The World Bank.

Beekun, R. I. and Badawi, J. A. (2005). Balancing ethical responsibility among multiple organizational stakeholders: The islamic perspective. *Journal of business ethics*, 60(2):131–145.

Berger, P. G., Ofek, E., and Yermack, D. L. (1997). Managerial entrenchment and capital structure decisions. *The journal of finance*, 52(4):1411–1438.

Bhagat, S. and Bolton, B. (2008). Corporate governance and firm performance. *Journal of corporate finance*, 14(3):257–273.

Bhatti, M. and Bhatti, I. (2009). Development in legal issues of corporate governance in islamic finance. *Journal of Economic and Administrative Sciences*, 25(1):67–91.

Bin Tariq, D., Butt, S. A., et al. (2008). Impact of corporate governance practices on financial performance: Empirical evidence from pakistan.

Black, B. S., Jang, H., and Kim, W. (2006). Predicting firms' corporate governance choices: Evidence from korea. *Journal of corporate finance*, 12(3):660–691.

Bodie, Z., Kane, A., and Marcus, A. J. (2002). Investments. international edition. *New York, Boston, London.*

Borgsteede, S. D., Graafland-Riedstra, C., Deliens, L., Francke, A. L., van Eijk, J. T., and Willems, D. L. (2006). Good end-of-life care according to patients and their gps. *Br J Gen Pract*, 56(522):20–26.

Brown, L. D. and Caylor, M. L. (2006). Corporate governance and firm valuation. *Journal of accounting and public policy*, 25(4):409–434.

Bruno, V. G. and Claessens, S. (2007). *Corporate governance and regulation: can there be too much of a good thing?* The World Bank.

Burke, M. J. and Day, R. R. (1986). A cumulative study of the effectiveness of managerial training. *Journal of applied Psychology*, 71(2):232.

Bushee, B. J. and Noe, C. F. (2000). Corporate disclosure practices, institutional investors, and stock return volatility. *Journal of accounting research*, pages 171–202.

Byrne, E. F. (2011). Business ethics should study illicit businesses: To advance respect for human rights. *Journal of Business Ethics*, 103(4):497.

Caggiano, A., Segreto, T., and Teti, R. (2016). Cloud manufacturing framework for smart monitoring of machining. *Procedia Cirp*, 55:248–253.

Chahine, S. and Tohmé, N. S. (2009). Is ceo duality always negative? an exploration of ceo duality and ownership structure in the arab ipo context. *Corporate Governance: An International Review*, 17(2):123–141.

Chapra, M. U. and Ahmed, H. (2002). *Corporate governance in Islamic financial institutions*. Islamic Development Bank Jeddah, Saudi Arabia.

Cheng, Q. and Lo, K. (2006). Insider trading and voluntary disclosures. *Journal of Accounting Research*, 44(5):815–848.

Clarke, T. (2004). Theories of corporate governance. *The Philosophical Foundations of Corporate Governance, Oxon*.

da Silva, A. L. C. and Leal, R. P. C. (2005). Corporate governance index, firm valuation and performance in brazil. *Brazilian Review of Finance*, 3(1):1–18.

Daines, R. M., Gow, I. D., and Larcker, D. F. (2010). Rating the ratings: How good are commercial governance ratings? *Journal of Financial Economics*, 98(3):439–461.

Dar, H. A. and Presley, J. R. (2000). Lack of profit loss sharing in islamic banking: management and control imbalances. *International journal of Islamic financial services*, 2(2):3–18.

Derigs, U. and Marzban, S. (2008). Review and analysis of current shariah-compliant equity screening practices. *International Journal of Islamic and Middle Eastern Finance and Management*, 1(4):285–303.

Dharwadkar, B., George, G., and Brandes, P. (2000). Privatization in emerging economies: An agency theory perspective. *Academy of management review*, 25(3):650–669.

Dixon, R., Guariglia, A., and Vijayakumaran, R. (2015). Managerial ownership, corporate governance and firms' exporting decisions: evidence from chinese listed companies. *The European Journal of Finance*, pages 1–39.

Doidge, C., Karolyi, G. A., and Stulz, R. M. (2007). Why do countries matter so much for corporate governance? *Journal of financial economics*, 86(1):1–39.

Dühnfort, A. M., Klein, C., and Lampenius, N. (2008). Theoretical foundations of corporate governance revisited: A critical review. *Corporate Ownership & Control*, 6(2):424–433.

Dusuki, A. W. (2008). What does islam say about corporate social responsibility. *Review of Islamic Economics*, 12(1):5–28.

Easley, D. and O'hara, M. (2004). Information and the cost of capital. *The journal of finance*, 59(4):1553–1583.

Fama, E. F. and Jensen, M. C. (1983). Agency problems and residual claims. *The Journal of Law and Economics*, 26(2):327–349.

Farook, S. (2007). On corporate social responsibility of islamic financial institutions.

Ferreira, M. A. and Laux, P. A. (2007). Corporate governance, idiosyncratic risk, and information flow. *The Journal of Finance*, 62(2):951–989.

Fishman, M. J. and Hagerty, K. M. (1992). Insider trading and the efficiency of stock prices. *The RAND Journal of Economics*, pages 106–122.

Fisman, R. J., Khurana, R., Rhodes-Kropf, M., and Yim, S. (2013). Governance and ceo turnover: Do something or do the right thing? *Management Science*, 60(2):319–337.

Flak, L. S. and Rose, J. (2005). Stakeholder governance: Adapting stakeholder theory to e-government. *Communications of the Association for Information Systems*, 16(1):31.

García-Meca, E. and Sánchez-Ballesta, J. P. (2009). Corporate governance and earnings management: A meta-analysis. *Corporate governance: an international review*, 17(5):594–610.

Gedajlovic, E. and Shapiro, D. M. (2002). Ownership structure and firm profitability in japan. *Academy of Management Journal*, 45(3):565–575.

Gompers, P., Ishii, J., and Metrick, A. (2003). Corporate governance and equity prices. *The quarterly journal of economics*, 118(1):107–156.

Grais, W. and Pellegrini, M. (2006). *Corporate governance in institutions offering Islamic financial services: issues and options*. The World Bank.

Grossman, S. J. and Hart, O. D. (1982). Corporate financial structure and managerial incentives. In *The economics of information and uncertainty*, pages 107–140. University of Chicago Press.

Gujarati, D. (2008). N. 2003. *Basic econometrics*, 4.

Haniffa, R. and Hudaib, M. (2007). Exploring the ethical identity of islamic banks via communication in annual reports. *Journal of Business Ethics*, 76(1):97–116.

Hassan Che Haat, M., Abdul Rahman, R., and Mahenthiran, S. (2008). Corporate governance, transparency and performance of malaysian companies. *Managerial Auditing Journal*, 23(8):744–778.

Hayat, R. and Hassan, M. K. (2017). Does an islamic label indicate good corporate governance? *Journal of Corporate Finance*, 43:159–174.

Hodgson, A., Lhaopadchan, S., and Buakes, S. (2011). How informative is the thai corporate governance index? a financial approach. *International Journal of Accounting & Information Management*, 19(1):53–79.

Ibrahim, A. A. (2006). Convergence of corporate governance and islamic financial services industry: toward islamic financial services securities market.

Ibrahim, M. H. (2015). Issues in islamic banking and finance: Islamic banks, shariah-compliant investment and sukuk. *Pacific-Basin Finance Journal*, 34:185–191.

Iliev, P. and Roth, L. (2018). Learning from directors' foreign board experiences. *Journal of Corporate Finance*, 51:1–19.

Iqbal, Z. and Lewis, M. (2009). *An Islamic perspective on governance.* Edward Elgar Publishing.

Jensen, M. C. (1986). Agency costs of free cash flow, corporate finance, and takeovers. *The American economic review*, 76(2):323–329.

Jensen, M. C. and Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of financial economics*, 3(4):305–360.

Jiraporn, P., Kim, J.-C., Kim, Y. S., and Kitsabunnarat, P. (2012). Capital structure and corporate governance quality: Evidence from the institutional shareholder services (iss). *International Review of Economics & Finance*, 22(1):208–221.

Jiraporn, P. and Liu, Y. (2008). Capital structure, staggered boards, and firm value. *Financial Analysts Journal*, 64(1):49–60.

Jones, L. B. (2001). *Jesus, CEO: Using ancient wisdom for visionary leadership.* Hachette UK.

Kuran, T. (2004). The economic ascent of the middle easts religious minorities: the role of islamic legal pluralism. *The Journal of Legal Studies*, 33(2):475–515.

Lee, K.-h., McCann, D. P., and Ching, M. (2003). Christ and business culture: A study of christian executives in hong kong. *Journal of Business Ethics*, 43(1-2):103–110.

Lehn, K., Patro, S., and Zhao, M. (2007). Corporate governance indexes and valuation: Which causes which?

Lemmon, M. L. and Lins, K. V. (2003). Ownership structure, corporate governance, and firm value: Evidence from the east asian financial crisis. *The journal of finance*, 58(4):1445–1468.

Lewis, M. K. (2001). Islam and accounting. In *Accounting forum*, volume 25, pages 103–127. Blackwell Publishers Ltd.

Lopes, A. B. and de Alencar, R. C. (2010). Disclosure and cost of equity capital in emerging markets: the brazilian case. *The International Journal of Accounting*, 45(4):443–464.

Love, I. and Klapper, L. F. (2002). *Corporate governance, investor protection, and performance in emerging markets*. The World Bank.

Maali, A., Cardinal, T., and Treguer-Delapierre, M. (2003). Intrinsic fluorescence from individual silver nanoparticles. *Physica E: Low-dimensional Systems and Nanostructures*, 17:559–560.

Mohanty, P. (2003). Institutional investors and corporate governance in india.

Muhamad Sori, Z., Mohamad, S., and Shah, M. (2015). Shariah governance practices in malaysian islamic financial institutions.

Oviatt, B. M. (1988). Agency and transaction cost perspectives on the manager-shareholder relationship: Incentives for congruent interests. *Academy of Management Review*, 13(2):214–225.

Parker, L. D. (2007). Financial and external reporting research: the broadening corporate governance challenge. *Accounting and Business Research*, 37(1):39–54.

Pava, M. L. (1997). *Business ethics: A Jewish perspective*, volume 21. KTAV Publishing House, Inc.

Pava, M. L. (1998). The substance of jewish business ethics. *Journal of Business Ethics*, 17(6):603–617.

Ragab Rizk, R. (2008). Back to basics: an islamic perspective on business and work ethics. *Social Responsibility Journal*, 4(1/2):246–254.

Reddy, K., Locke, S., and Scrimgeour, F. (2010). The efficacy of principle-based corporate governance practices and firm financial performance: An empirical investigation. *International Journal of Managerial Finance*, 6(3):190–219.

Rice, G. (1999). Islamic ethics and the implications for business. *Journal of business ethics*, 18(4):345–358.

Safieddine, A. (2009). Islamic financial institutions and corporate governance: New insights for agency theory. *Corporate Governance: An International Review*, 17(2):142–158.

Samad, A. and Hassan, M. K. (1999). The performance of malaysian islamic bank during 1984-1997: An exploratory study. *International journal of Islamic financial services*, 1(3):1–14.

Sami, H., Wang, J., and Zhou, H. (2011). Corporate governance and operating performance of chinese listed firms. *Journal of International Accounting, Auditing and Taxation*, 20(2):106–114.

Samra, E. (2016). Corporate governance in islamic financial institutions.

Shamsuddin, Z. and Ismail, A. G. (2013). Agency theory in explaining islamic financial contracts. *Middle East Journal of Scientific Research*, 15(4):530–545.

Shanmugam, B. and Zahari, Z. R. (2009). A primer on islamic finance.

Shleifer, A. and Vishny, R. W. (1997). A survey of corporate governance. *The journal of finance*, 52(2):737–783.

Shleifer, A., Vishny, R. W., Porta, R., and Lopez-de Silanes, F. (2000). Investor protection and corporate governance. *Journal of financial economics*, 58(1-2):3–27.

Shumway, T. (2001). Forecasting bankruptcy more accurately: A simple hazard model. *The journal of business*, 74(1):101–124.

Siddiqi, M. N. (2006). Islamic banking and finance in theory and practice: A survey of state of the art.

Siddiqui, A. (2008). Financial contracts, risk and performance of islamic banking. *Managerial finance*, 34(10):680–694.

Siddiqui, S. H. (2001). Islamic banking: true modes of financing. *New Horizon*, 109(2):15–20.

Smith, A. (1776). An inquiry into the nature and causes of the wealth of nations: Volume one. London: printed for W. Strahan; and T. Cadell, 1776.

Sulaiman, M. (2005). *Islamic corporate reporting: Between the desirable and the desired*. International Islamic University Malaysia.

Sulaiman, M., Majid, N. A., and Ariffin, N. M. (2015). Corporate governance of islamic financial institutions in malaysia. *Asian Journal of Business and Accounting*, 8(1):65–94.

Tabachnick, B. G. and Fidell, L. S. (1996). Using multivariate statistics . northridge. *Cal.: Harper Collins*.

Uddin, S. J. (2003). Understanding the framework of business in islam in an era of globalization: a review. *Business ethics: a european review*, 12(1):23–32.

Ul Haque, N. and Mirakhor, A. (1986). Optimal profit-sharing contracts and investment in an interest-free islamic economy.

Ullah, S., Jamali, D., and Harwood, I. A. (2014). Socially responsible investment: insights from s hari'a departments in i slamic financial institutions. *Business Ethics: A European Review*, 23(2):218–233.

Van Slyke, D. M. (2006). Agents or stewards: Using theory to understand the government-nonprofit social service contracting relationship. *Journal of Public Administration Research and Theory*, 17(2):157–187.

Yan Lam, T. and Kam Lee, S. (2008). Ceo duality and firm performance: evidence from hong kong. *Corporate Governance: The international journal of business in society*, 8(3):299–316.

Yusoff, W. F. W. and Alhaji, I. A. (2012). Corporate governance and firm performance of listed companies in malaysia. *Trends and Development in Management Studies*, 1(1):43–65.

Zheka, V. (2006). Does corporate governance causally predict firm performance? panel data and instrumental variables evidence.

Zwiebel, J. (1996). Dynamic capital structure under managerial entrenchment. *The American Economic Review*, pages 1197–1215.