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Shariah Compliant Status and Firm Life Stages as Determinants of Corporate Governance in Pakistan

by

Maria Mumtaz

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I would like to dedicate this achievement to my parents and siblings who have been a constant support and motivation throughout my degree

CERTIFICATE OF APPROVAL

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Maria Mumtaz

Registration No: (MMS183001)

THESIS EXAMINING COMMITTEE

S. No.	Examiner	Name	Organization
(a)	External Examiner	Dr. Ahmad Fraz	PIDE, Islamabad
(b)	Internal Examiner	Dr. Arshad Hassan	CUST, Islamabad
(c)	Supervisor	Dr. Nousheen Tariq Bhutta	CUST, Islamabad

Dr. Nousheen Tariq Bhutta
Thesis Supervisor
January, 2021

Dr. Mueen Aizaz Zafar
Head
Dept. of Management Sciences
January, 2021

Dr. Arshad Hassan
Dean
Faculty of Management & Social Sciences
January, 2021

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Maria Mumtaz

Abstract

This study aims to investigate the corporate governance practices of Shariah- compliant firms determined by their life stages. Two statement are hypothesized that Islamic label (Shariah compliance) firms indicate good corporate governance and that firm life stages are good predictors of corporate governance. Shariah compliant firms identify with the laws obliged by religion. Because recent evidence indicates that firms implementing Islamic finance indicate good corporate governance levels. On the basis of the evidence, it is also expecting these Islamic label (Shariah compliance) firms determine corporate governance according to their life cycle stage which might be introduction, growth, maturity and decline.The results are based on 84 firms listed at Pakistan Stock Exchange for the period of 2015 to 2019. This study has employed panel data analysis to explore the relationship of dependent and independent variables. The results of this study indicates, Islamic label has no significant and positive effect on corporate governance and neither does firm life stages are good indicators of CGI. The finding of this study helps the investors, managers as well as the regulatory bodies to better understand the effect of the shariah compliant status and firm life stages on corporate governance.

Keywords: Islamic Label, Shariah Compliance, Firm Life Stages, Corporate Governance, Panel Data Estimation, Principal Component Analysis.

Contents

List of Figures

List of Tables

Abbreviations

ACI	Audit Committee Independence
BI	Board Independence
BS	Board Size
CGI	Corporate Governance Index
DP	Dividend Payout
EPS	Earning Per Share
FLS	Firm Life Stages
FS	Firm Size
IL	Islamic Lebel
OS	Ownership Structure
TQ	Tobin Q

Chapter 1

Introduction

1.1 Background of the Study

Corporate governance has been at the forefront of financial discussions and betterment of the industries for decades. Major failures in the business world have been characterized as downfall of corporate governance among many other factors (Samra, 2017). Therefore, a business institution must assure that the solid corporate governance principles are embedded in the core of institutions in order to compete global investors, regulators, and consumers.

Corporate governance is defined as a promise made by decision makers to the stakeholders. It is a set of systematic laws, contracts, and social norms that outlays the structure by which firms make decisions. It is a tool that firm uses to measure their performance and plan workforce. It also overlays the organizational structure in which they set their objectives and attainable goals. According to Organization for economic corporations and developers, corporate governance links its stakeholders and shareholders.

Different workforce of an organization for example, managers, shareholders, the board of directors and other stakeholders set tasks and responsibilities that specify the corporate governance structure for decision making. It also provides a structure in which objectives of the governance are set. Good corporate governance helps to sustain long-term company performance. Corporate governance and corporate financial performance are correlated and rating of a company has significant positive impact on its financial performance (Aggarwal et al. (2011).

For last few years, Corporate Governance is becoming a tuneful word in the business world of Pakistan. The main objective behind the trending focus of corporate governance and its importance is SECP which is Securities and Exchange Commission of Pakistan.

The regulatory bodies have made it enforced for all listed companies on Stock Exchange to follow the conventional standards of Corporate Governance and must report annually for all concerned stakeholders. This growing interest of corporate governance in Pakistan is mainly because it is a key to develop a business market in transitioning economies like Pakistan.

Therefore, being an Islamic state, Pakistan ensures that the management of business entities must be in accordance with the highest fundamental standards of ethics and efficacy. The vital goal is to maintain and promote the interests of all corporate stakeholders. Recently following criteria is being followed for entitlement of Shariah compliant status:

- The core business of the company should not violate any principle of Shariah.
- Interest bearing Debt to total assets should be less than 37%.
- Non compliant investments to toal assets should be less than 33%.
- Non-compliant income to revenue should be less than 5%.
- Illiquid assets to total assets should be greater than 25%.

Majority firms listed on PSX own Shariah compliant status which specifically originates when listed shares of firms are not effective in any unethical business activities. They can have a certain amount of debt on their balance sheet. Organizations that are islamically labelled have an attraction for Muslims investors apart from the nature of the business which can be from producing sector or services sector. Shariah promotes investments that are permitted by the Quran (Holy book of Muslims) and Hadith (proven sayings and acts of Prophet Muhammad (PBUH)).

Thus, firms that prohibit investments that involve Gharar (Uncertainty), maysir (gambling) and Riba (interest) are included under the status of Shariah compliance (Adam and Bakar, 2012). Islamic stocks are essentially socially responsible (SRI) investments that are outlined to certain boundaries and rules (Hayat & Hassan, 2017). Under the assumption that firms born with Shariah compliant status must pursue good corporate governance, this study is conducted mainly on listed firms in Pakistan to study the impact of Islamic label on corporate governance.

Another factor I am adding to this study is the impact of firm life stages. It has been 72 years since Pakistan came into being and so the business industry has grown since then in all producing and services sectors. Firm life stages are distinctive phases that result from changes rising from strategic activities undertaken by the firm.

As defined by Gort and Klepper (1982), firm life stages are divided along four time lines which are (1) introduction, where an innovation is first born; (2) growth, where the number of producers increases intensely; (3) maturity, where the number of producers reaches to a maximum level; and (4) decline, where the number of producers begins to decline eventually. Livnat and Zarowin (1990) found out that the breakdown of cash flows into operating, investing, and financing activities differentially affects stock returns and hence, corporate governance. Therefore, firm life stages capture differences in a firm's profitability, growth, and risk.

Principal-agent theory labels a limited, static, corporate governance purpose, discounting the resource and strategic roles for corporate governance (Filatotchev et al. (2006)). Corporate governance exists solely to supervise shareholders (principles) who are authorized to employ a board of directors (agents) for the speculation of the behavior of egotistical managers. On opposing to the commonly recommended stagnant method, firms may amplify shareholders' wealth by emphasizing different corporate governance functions according to their needs at each stage of their life cycle. This life cycle understanding of corporate governance speculates that the role of corporate governance assists different purposes along the life cycle suggesting the continuation of corporate governance at each life cycle stage. Specifically, after firm commencement, various succeeding corporate life cycles have been commonly identified and the need for governance to provide agency, resource, and strategic functions varies at each life cycle stage (Wright et al., 2013).

Previous studies analyzed for whether an Islamic label for listed firms designates good corporate governance, but they found no substantial differences in corporate governance between Islamic and Non-Islamic firms (Jiraporn et al., 2012). Also, former studies focused only on large firms using the current year's data with an assumption that firms tend to stay Islamic over shorter periods of time.

This stream of literature proposes that corporate governance may vary by specific firm conditions at any point in time rather than based on a life cycle phase. Phelps et al. (2007) also discovered that firm life stage cannot be included in the better interpreters of corporate governance as firms enable changes in the objectives of corporate governance by listing the analysis that fits the governance needs of the organization.

Both factors are incorporated, Islamic label and Firm life stages to study corporate governance of listed firms in Pakistan as previous studies suggest to analyze the impact of both shariah compliant status and life stages of firms in transitioning economies with a longer time periods therefore, my study aims to find out if there is a significant impact on corporate governance in Pakistan or not when it comes to Islamic label and firm's life cycle stages.

1.2 Supporting Theories

Many researches have been carried out that argued a single theory is never enough to understand corporate governance and researchers like Yusoff and Alhaji (2012) and Dunhnfort et al. (2008) stressed on the use of combination of two or more theories for the better understanding of predictors of corporate governance. This section of study represents two theories that support the process of understanding the relation between Shariah compliant status and Firm life stages with corporate governance. The two theoriesare agency theory and stewardship theory. Both somehow bridge the gap between the impact of firm life cycle stages and Islamic labelestablishing the link to corporate governance and the background for this study.

1.2.1 Agency Theory

According to Jensen and Meckling (1976), agency theory intends a conflict that arises between management and ownership. The theory describes a weak connection between the owners and control of a corporation (Fama and Jensen (1983)). Further arguements about the theory examine agency problems that evolve whenever the goal of principals(management) is different from the objective of the agent (employees).

The key reason is that agents have more information than the principals as they are involved in day to day operation of the business, so they center their own interest instead of the owner's thus, creating a leak of fellowship of interest between them. Oviatt (1988) found out that the managerial benefits must be ranged with that of the shareholders and in order to achieve that, the disclosure of information is important.

The current study pursues to compare above mentioned views about the corporate governance which eventually subjects them to empirical questioning. Corporate governance is considered to be a historical predictor for the stock returns of firms. Zwiebel (1996) proposed a structure that outlined a behavior of directors who knowingly pickobligation to force theirfuture scope by tryinging to obviate expost control changes.

These obligationsare planned corporate administrative structures that substitute components in improving office issues. Shamsuddin (2005) argues that in Shariah compliant companies requires an extensive control for the purpose of evaluating performance of the management. Principal-agent behavior may assist to diminish the problem of managers as some scholars argue that the power of mutual religious beliefs can support a culture that can help evaluate agency performance. Many researchers like Abu-Tapanjeh (2009); and Siddiqui (2008)) explain that Managers in Shariah labelled businesses have to be accountable with the intention of creating higher welfare and development of the society. However, the ethical relativism (Rice, 1999)argues that theethical values are particularly derived from Government principles.

In the context of the Islamic organizations, Safieddine (2009) findsan additional agency cost in Islamic firms because they follow Shariah compliant guidelines and policies for all transactions, so when an investor wants to invest he first needs to calculate modes of financing like partnership, trade or rent on the principle of profit and loss sharing ratio (Siddiqi (2006)). This exercisecreates an additional enterprise hurdle due to separation of cash from the manage. Grais and Pellegrini (2006) debates that in Shariah compliant firms, managers cannot perceive reasonable possibilities on behalf of a customer through not making enough effort in deceiving with the price range of traders, which might result in lower income and maximize their benefits.

According to Dar and Presley (2000), an Islamic bank plays the role of owner, when it lends money to its customers on the basis of profit and loss sharing and agent, when it accepts deposits from its customers. However, the customers of Islamic banks are at a greater risk of exposure, as they are not guaranteed entitled any fixed returns on their deposit so they usually end up getting less than what they deposited.

Theutmost goal of any firm is to amplify shareholders' wealth which eventually gets contested by agents who may act in their self-interest rather than in the interest of shareholders. The last few decades, different researchesregarding corporate governance has recognized certain possibilities that attempt to moderate the agency problem such as the board of directors, executive compensation, the market for corporate control, concerted holdings of financial institutions(Boubaker et al., 2012).

As to further magnify our knowledge about the agency problem, researchers have studied extensively the factors influencing the overall quality of corporate governance and briefly identified a number of factors affecting governance commonly at the firm-level. Some of the factors are measured relevant predictors of corporate governance such as firm size, growth opportunities, external financing need, asset tangibility, and crosslisting status and ownership structure.

1.2.2 Stewardship Theory

Stewardship theory proposes that executives of the business are not interested in individual benefits, but they are keen interested to serve the principal interests (Van Slyke (2006). In this regard, executives become stewards of the business. The Stewardship theory explains context of the Islamic label in terms of transparency and firm life stages in terms of managerial behavior. Sulaiman et al. (2015) argues that Islamic label organization are born under the Shariah compliant rules and regulations so it refers that principal and agent work for the collective interest rather than individual interest. Clarke (2004) exhibits several factors like use of authority principals and agents, motivation, and identification that help in differentiating stewardship and agency theory. Yan Lam and Kam Lee (2008) suggested that for investigating corporate governance stewardship theory is more complementing rather than agency theory.

Stewardship theory mainly centers on managerial behaviour. It affirms that the key motivating factor for managers is getting satisfaction by a job that is done well. Thus, their behaviour is in line with organization's interests. Therefore, there is no conflict between managers and shareholders rather, the conflicts are the substance of the problems explained by agency theory.

1.3 Gap Analysis

The association among the corporate governance mechanisms and Shariah compliant status has been broadly determined in both established and growing marketing industries but this study exclusively used the firm life stages as another independent variable. Therefore, no significant research has been done in respect of Pakistan such as Islamic status and life stages of firms as a predictor for corporate governance. In the past many investigations found significant role of Shariah compliant status of listed firms that indicate good corporate governance. Such results might be expected because former research suggests that Shariah compliant firms are curtained for low leverage and that governance can alternate for leverage as a mechanism for disciplining managers (Jiraporn et al., 2012 and Arping and Sautner, 2010).

So previous studies suggest, firms with low leverage should have better governance considering Shariah compliant status as a moderating factor. However, Hayat, R., & Hassan, M. K. (2017) found no significant differences in corporate governance quality between Islamic and non-Islamic S&P 500 firms. Moreover, when they regress corporate governance on an Islamic dummy and control variables, no strong evidence of significant dummy was found. Likewise, past studies show that life cycle view is a better predictor of corporate governance quality but literature debates that corporate governance standards do not vary by life cycle stage, but rather by listing levels of stock exchange in developed markets.This study, furthermore, add to the widespread literature on agency theory as managers, independent of the firm life stage, take steps to improve corporate governance, hence, sinking agency costs and expanding growth opportunities.

Most studies analyzed data relying at a single time period for large and established financial institutions, but this study has given an equal chance to non-financial firms with stratified random sampling for the fairness of findings.This study will provide valuable information for regulatory bodies to understand the level of good corporate governance under the Islamic label at a certain life stage. This will also help 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 will be a contribution to existing literature by considering the impact of firm life stages and Islamic label on corporate governance of the firms listed on the Pakistan stock exchange.

1.4 Problem Statement

Modern business world has been advancing immensely due to many challenges such as the globalization and technology which are equally objected to both already developedand developing economies.The establishment of new government of Pakistan in the year 2018 has raised many new debates to economic growth and debt burden of Pakistan. Every political party has its own policies and ways, and as soon as they join government, they apply new rules and regulations on the firms listed in SECP and Stock Exchange. So every time, new policies are brought to table regarding interestand tax rates, thecorporate governance bodies like board of directors and members of audit committee handle these specific challenges and its impact on performance of the company is merely affected in Pakistan.

The present study examines the impact on corporate governance in Pakistan of non-financial company status and its life cycle stage. The codes of ethics and corporate governance legal structures in Pakistan have financial distress management mechanisms that differ from one country to another. Iqbal, and Z. Oh, and Lewis, M. (2009) examines the role of corporate governance on the sustainability of industry in the economy of Pakistan. However, in the Asian sense, the empirical proof of corporate governance and the Islamic mark is still missing, and the effect of corporations' existence stages on corporate governance in Pakistan remains unexplored. A publicity tool and consistency may be the corporate life process and the Islamic label In order to promote corporate governance, industrialised markets have explored the firm life stage and the Islamic label as commodities through the economy and capitalist structure. This research is a step towards filling a void in the financial literature of Pakistan.

1.5 Research Questions

This study inspects and institutes the relationship between corporate governance and firm life stages along with Shariah compliant status. Since corporate governance practices are liable for value addition and breakdown of the company, so it is theorized that corporate governance proxies such as ownership concentration, number of board of directors, audit committee independence and institutional ownership demonstrate the impact of Islamic label and firm life stages.

Following are the research questions of this study:

1. What is the impact of Shariah compliant status on corporate governance quality?

2. What is the impact of firm life stages on corporate governance?

1.6 Objectives of the Study

The two main objectives of this study are:

- To examine the association between Corporate Governance and firm life stages
- To explore the impact of Shariah compliant status on corporate governance.

However, this study has some sub-objectives which will help us to reach the major objective of the study that consist of exploration of firm size as a better indicator of corporate governance and to determine empirical impact of financial ratios, dividend payout and earnings per share on corporate governance. Also, this study will examine profit margin as a better measure for corporate governance.

1.7 Significance of the Study

Corporate governance methods in Pakistan is unlike the primary structure of corporate governance in United Kingdom, United States, and other established countries. Even within Pakistan, the system of governance is not similar. Countless companies function as a business group, however other firms are operating as individual or stand-alone companies. Some firms are operating based on the foundations of Islamic rules and regulations, thus, trading Shariah compliant stocks but others are the followers of conventional financing methods. Majority of the firms listed on Stock Exchange preserve Shariah compliant status, but they belong to non-financial sectors. It is obliged for this study to consider only non-financial firms in order to explore the essence of the main two objectives. Undeveloped markets offer unique characteristics as to distinguish corporate governance practices within and throughout countries (Siegel, 2012). However, the ordinary firm from developing countries still has poorer governance as compare to to developed markets firms. An important reason is that firms from developing markets face stronger confronts to launch a status for protecting shareholder rights due to agency costs (Doidge et al., 2007).

Corporate governance is a legal entity of shareholders according to Islam. The main objective of corporate governance to sees the social welfare of stakeholders. This study identifies corporate governance obstacles (complicated activities, complicated rules, and principles) can be solved in the light of Islamic law (Shariah Compliant). This study adds three evidences to Pakistan's financial literature. First, it employs a more detailed dataset of non-financial firms that help discern between the firm's requirements to offer better corporate governance, given the firm life stages, and the firm's charted financial rules and procedures laid on the foundation of religion. Second, our dataset provides observation of corporate governance quality at different points in timerather than the cross- sectional approach used by Byrne (2015).

Lastly, thus this thesis employs vigorous and widely used proxies for the corporate governance, such as the measures submitted by Lehn, K., Patro, S., and Zhao, M. (2007).The contribution of this study is to explore the impact of Islamic label and firm life stages a s a better guide of corporate governance in Pakistan. This empirical study explores the relationship between firm life cycle added to shariah compliant status, and the behavior of non-financial sector toward good corporate governance.

1.8 Organisation of the Study

The first chapter provides a detailed introduction on dependent and independent variables under studywhich are corporate governance as dependent variable and firm life stage and Islamic label as independent variables. This chapter also enlightens the understanding of the topics through background of the study with additional support of theoretical background of the variables as to gather empirical evidence on how this study is significant to conduct.

Chapter two contains a comprehensive literature review of Islamic label, firm life stages and corporate governance along with different proxies that were previously referred by researchers to use for corporate governance such as ownership structure, institutional ownership, board size, board independence, audit committee independence. Some other variables are also discussed in light of literature review that are considered to be better indicators of corporate governance.

Chapter three focuses mainly on methodology. In this chapter, one can find the sampling technique on which this study has been carried out and the sample size that has been chosen. Data collection has been discussed in this chapter and the measuring procedure that has been chosen to find out the effect of variables. The method how final results have been drawn are also mentioned in this chapter. Sample classification, list of variables, descriptive statistics and correlation have been briefly discussed in this chapter.

Chapter four discusses drawn results and empirical analysis of corporate governance and its determinants.

Conclusion and future recommendations are mentioned in chapter number five. The key findings from the study and how it provides a guideline to future researchers are also discussed in this chapter along with references.

Chapter 2

Literature Review

2.1 Islamic Label and Corporate Governance

Islam teaches about every aspect of life. One of the aspects it teaches is to earn money and manage it. Islamic finance is an art of managing money according to Islamic principles. Thus, Islamic finance is considered to be a very important tool in developing countries. World Bank is using the methods of Islamic finance for the development of economies and reduction of poverty.

Islamic finance titles all Muslims institutions that include companies, lending and borrowing and capital raising projects. An Islamic economic system based on the Islamic ideology of equality and social justice that works for the dignity of manhood and nation and present as an economic system to the world. The economic system based on Islamic teachings enable us to represent peace and humanity to worldwide nations.

The council of Islamic Ideology has presented some guidelines in the form of reports and draft to the government. The reports are to advise the government to align financial system of the country with the constitutional obligations in which, there were some alternative suggestions have been made on how to eliminate the Rabia. In 1980s, an interest-based system was introduced to the financing and investment sector laid on the foundation of profit and loss distribution. Ullah et al. (2014) has explained Shariah in the modern dominance of corporate social responsibility

(CSR). According to him, Shariah objectives are a well-built kinship that are based on three distinct steps. The orders given by the verdict (fatwa) issuing authority must be verified and implemented for launching any new product/service.

Ibrahim (2006) has deduced from his study that the source of laws and principles are considered as Shariah laws fully which are significant to have by all legislative and all regulatory bodies. All code of ethics and guiding principles to carry out a business, are provided in Shariah. Fiduciary duties of management and directors are derived from the Shariah ethical practices which have been a great help for a high level of reasonable reduction in agency costs, accountability, sustainability and transparency.

Dusuki (2008) talks in a broader and holistic way about Shariah objectives that not only concentrate on the matter of responsibility of individuals, but also carrying out businesses as a promise from Allah that ones' wealth is to be considered as a reliance. One must avoid from the use of all those things for personal gains that would affect on damaging others' wealth. Rather, we must relieve anyone who is in trouble and requires help in finance or business. There are five basic objectives of shariah, which are promoting the welfare, wealth and prosperity of all mankind.

Islamic principal prohibits interest payment and Riba generally. Most listed companies are engaged in receiving and paying interest which is proscribed for investment in Islamic principal point of view. This is the main difference between Islamic financing and conventional financing. Islamic loan is usually guaranteed by the federal Government while the conventional loan is not insured by the federal government. In practice, Shariah principles oblige Muslims that they cannot invest money in conventional bonds, receive or give conventional credit and loans through derivative conjecture or adverse risk using Credit default swaps. Islamic rules may look laborious and difficult to track, but they do not mean to proscribe Muslims' commercial risk and profit.

As explained by Derigs and Marzban (2008), a halal asset is the one that is consistent to unlike Shariah rules. They also tried to determine rational difference in halal and haram asset. Numerous analysis has been considered in literature on every asset index that might be changed in size as well as in component detailed by halal and haram. There is no largely acknowledged conception of how to change the distinct Shariah rules into an organization of certified speculative rules.

Beekun and Badawi (2005) demonstrates the modification of the association between spiritual and managerial thinking, especially in the area of ethics. Muslims cover one fifth of the total world population which equals nearly to 1.3 billion. That is why Islamic business model of ethics is exercised as a binding element among all nations worldwide. This model speculates multiple desires of stakeholders and different enforcement mechanisms of principal and agent relationship as a trust and goodwill.

Uddin (2003) also suspects that Muslim community has been spread rapidly across global. Some of them hold lion shares of crude oil resources. Therefore, greater appreciation of diversity is needed based on religion because the tide of globalization has stressed. Corporate organization deals with multiple frameworks that authorize budgetary certifications in associations with landing on their endeavors (Shleifer and Vishny (1997). Recent couple of years has perceived a growing anticipation to express the biggest measures of alleged and discreet examination among directors, controllers, business bodies, media and the general gathering (Parker (2007).

Cheng (2004) has documented research for developing countries on how attracting new investment is essential for good corporate governance. A number of theories recommend the support for the development of corporate governance that effective for management, organization behavior, accounting, law, finance, and economics. A good corporate governance must follow certain guidelines. A company must have an adequate and appropriate control within the system in order to power and influence any single individual from plying counteracts. It should only be about the relationship among other stakeholders and shareholders, company board of Directors and management. Corporate organizations have significantly stated facts that extraordinary organization particularly influences corporate execution (Gompers et al. (2003).

Bhagat and Bolton (2008) discovered this. Separation of the CEO chair is substantially positively associated with stock ownership of board members with improved operational results afterwards. None of the potential success of the stock market is linked to governance steps, contrary to statements by GIM and BCF. With improved regulated firms as calculated, low performance is less likely to encounter disciplinary management turnover by the GIM and BCF indices.

Bushee and Noe (2000) were found to have higher AIMR disclosure rankings for greater institutional ownership, but no net effect of return uncertainty on the disclosure rating. Increased ownership by predominantly seasonal institutions is related to annual changes in the rating by disclosures. Improvements in the transparency rating are distinguished by short-term tactics focused on rapid selling, resulting in higher temporary ownership and corresponding knowledge with stock return volatility.

Daines et al. (2010) were defined either by Risk Metrics' voting guidelines or by the governance scores with little or no association between them, or by shareholders' individual votes on proxy resolutions. Doidge et al. (2007) examined how the differentiation between countries, their own policies and accountability in the execution between initiatives to strengthen them impact the cost and benefits of corporations. The variation in governance ratings (from thirty nine percent to seventy three percent) has been established.

Business features of the variance in governance scores clarify virtually none in less developed countries and company prospects for improved governance that sharpen access to global capital markets. Adams et al. (2009) found that CEO turnover is more susceptible to stock implementation and managers earn higher value-based remuneration in a business of more than six different locations. Be it as it might, the usual result of disparities in sexual identity in firm implementation is unconstructive. This adverse impact is determined by entities with lower barriers to capturing.

Our findings recommend that the order of quantities of sexual preference for the chiefs will minimize firm an opportunity for all around administered firms. Regardless of whether more grounded administration strengthens hold/supplant decisions, Fishman et al. (2013) depends on which of these effect commands are based. This study uses a conceptual framework to analyze the effect of administration on the essence of withdrawing and enlisting actions using details on the dismissal of major U.S. relationships by the CEO in mid-1994-2007. With a helpful effect on poor administration on CEO expulsion decisions, our results are more credible, indicating that defense.

Grais and Pellegrini (2006) clarify the question of the existence of the organizational system that will be better suited to the creation of Islamic Fund norms, the administrations it would bring, and the resistance it would face. It would seem like no particular model of corporate management is likely to prevail, not withstanding, since the feasibility of every system would depend on the financial climate and the precise needs of each organization.

Theoretical experiments have been explored by Easley and O'hara (2004) to find that businesses can lower their capital costs by strengthening corporate governance strategies and concerns with the control department. From the report, Fishman and Hagerty (1992) conclude that if the investor understands the issue of the agency, then managerial control of the stock market could reduce investor self-reliance.

Cheng and Lo (2006) notice that the managers transmit false asset price and market price information in this manner. Theoretical experiments have been explored by Easley and O'hara (2004) to find that businesses can lower their capital costs by strengthening corporate governance strategies and concerns with the control department. From the report, Fishman and Hagerty (1992) conclude that if the investor understands the issue of the agency, then managerial control of the stock market could reduce investor self-reliance.

Cheng and Lo (2006) notice that the managers transmit false asset price and market price information in this manner. Their tests and reports have demonstrated that there is an important correlation between ownership and business valuation. A survey of Korean businesses was taken from 1993 to 1997. This finding shows that the viability and valuation of the companies are concentrated by inadequate control.

A strong correlation is identified between a corporate governance ranking and firm results by defining six corporate governance requirements (Brown and Caylor

(2006).Corporate Governance affects businesses from several ways, such as research that established the association between higher levels of CG practices and I Reddy et al. (2010) height, (ii) Love and Klapper (2002); Silveira et.al., (2004) liquidity (iii) da Silva and Leal (2005); Chahine and Tohm'e (2009); equity structure (iv) Garc'ıa-Meca and S'anchez-Ballesta (2009) capital structure, (v) output. Smaller firms are urged to provide a higher degree of governance from the results to increase their economic competitiveness as a way to reduce the cost of equity capital (Lopes and de Alencar (2010). It was discovered that Institutional Shareholder Services (ISS) offers broad-based, standardized governance measures used to assess the efficiency of corporate governance by Jiraporn et al. (2012).

A robust reverse correlation that shows scientific research is between debt and governance efficiency. Companies with weak governance are heavily indebted. Debt replacement entity tensions tend to be mitigating corporate governance. In addition, the use of an analytical approach that controls and does not simply embody endogeneity demonstrates that low standard of governance is likely to lead to higher leverage. Results are significant because the results demonstrate that key strategic decisions have a substantial effect on corporate governance, such as capital structure choices.

Berger et al. (1997) concluded that corporate governance's low debt level lowers aggressive supervision and benefits, attracts workers in an enterprise while high debt provides companies with a tax barrier and high debt ratio, reduces security management shocks and reduces unwanted CEO replacements and brings large stockholders to the board and reduces failed tenders. The amount of a private sector 's debt depends on the disposition of businesses such as banks and insurance companies with a high level of debt, whereas Islamic institutions have a low level of debt and do well in their region. Jiraporn and Liu (2008) also argued that due to poor governance (measured by staggered board), low level of debt firms is adopted. Because of their disciplinary governance features, both studies explain that entrenched managers require reasons to discourage debt. Hassan Che Haat et al. (2008) concludes from the analysis that there is a clear and important effect of good corporate governance on the success of a business.

How successful an organization is relying on good governance and disciplinary characteristics. They also notice that timely reporting is not correlated with the efficiency of governance and the extent of transparency. The findings illustrate the connexon between success and corporate. Because of poor corporate governance policies, corporations in numerous nations such as Rothwells Ltd, Enron, WorldCom, Global Crossing and Adelphia etc. fail, following which a great deal of attention is paid to corporate governance. The implementation of good corporate governance practices by Chen & Findlay (2003) is a major challenge for business organizations, especially those in developed countries. In many nations, particularly the Gulf countries, the need for strong corporate governance is stressed in Claessens et al. (2000) as many countries are hit by financial crises in 2008.

In some cases, Davies (2016) allows administrators and staff to understand their actions and to understand the need for rules and regulations and to handle them according to their needs. Corporate governance includes fundamental rules and regulations to control corporate entities, whether commercial or otherwise, regardless of their types. Charantimath (2005, p.219) believes that corporate governance takes us together at a time for the debate of essential (right) problems at the right moment with the right people. Internal and external governance factors influence the standard of financial reporting, whereas the efficacy of corporate governance is connected to the high degree of internal and external governance factors involved. These variables include board independence, board size, business size, institutional shareholders, ownership of institutional shareholders, duality of CEOs, independence of the audit committee, and leverage.

Similar market features present different efficacy of the system of government. Smaller boards also decrease the risk of free riding among, and increase the liability of, independent directors. This is backed by observational research. For instance, Yermack (1996) records that the market values businesses with smaller boards more intensely for big U.S. manufacturing organizations. In order to include a certain number of independent directors, the agency principle contains recommendations for reform within the organization. This is undeniably a preferable move for the dependent board of directors to improve not only the external component of corporations, but also to improve the efficiency of internal management, particularly from the chief executive. In addition, accountability must be the key precept underpinning the practices of the Board in order to create credibility and increase the consistency of financial reports for ex-payments.

Fama and Jensen (1976) and Shleifer and Vishny (1997) suggest that the partnership between the practices of corporate governance and the involvement of independent directors has a substantial effect on the consistency of reporting and also decreases the issue of the agency. Above all, if we pay careful attention to big firms where management and ownership are split, shareholders are powerless to monitor all movements made by managers or agents. There is a perception that larger boards are ideal for organizational success because they have a diversity of experience to help make better judgments and are more difficult to dominate for a dominant CEO. Recent thinking has, however, leaned toward smaller boards. Jensen (1993) claim that it is less efficient and simpler for the CEO to manage large boards. It becomes hard to co-ordinate and process issues when a board gets too large.

The characteristics of corporate governance were helpful to shareholders in signaling the extent of Beasley (1996) manipulations of management. This research explores the relationship by raising knowledge of earnings reliability based on indications, such as the Good Governance Process. The literature suggests some correlation of corporate governance characteristics and its interaction with earnings management in prior studies. Out of many available in literature, nine attributes were quoted. Fan et al. (2011) attracts human and financial capital together in the best possible terms, as a way of enhancing the efficiency and transparency of organizations. From the findings, Hope (2003) finds that effective corporate governance helps the company to change the processes and process sufficient to boost operational efficiency, policy execution and formulation. He also found that strong corporate governance coincides favorably with higher growth rates being achieved.

Saidi (2004) considers strong corporate governance, attracts foreign venture investors and provides customers and customers with stronger corporate governance.

It lowers transaction costs and the cost of capital and strengthens land rights, contributing to the growth of the financial market. Furthermore, auditing standards, financial statements and policies are an essential aspect of good governance. Kettell (2011) Wilson (1997) indicated that most religions are from the same root and most religions stress alike values such as openness, integrity, liability, confidence, the foundations for good governance. In comparison, some Islamic academic scholars have tried to describe corporate governance from an Islamic viewpoint. Sourial (2004) noted that there are various guidelines and regulations in Islamic laws and that they include the appropriate actions of Muslims on how to deal with economic transactions. In addition, Elasrag (2014) observed that traditional corporate governance activities do not vary much from an Islamic point of view, the only discrepancy between Islamic and classical corporate governance is that Islam forbids such goods and activities as well as respect for all stakeholders and rather than only shareholders.

Islamic label businesses supply the globe with wealthy clients. That's why Saeed et al., 2001; Uddin, (2003) discover that companies need to learn Islamic business ethics through study for many reasons. Since Muslim countries are some of the most prosperous in the world. For starters, Saudi Arabia alone has investments of more than $800 billion in the United States of America. Byrne (2011) has found that it requires corporate ethics as a goal for the prosecution into criminal enterprises. While business ethicists have legitimately avoided those criminal activities and abused human rights, they have. It is time to resolve this in order to identify criminal entities for repressive reasons, in view of recent foreign initiatives. Indifference. Freedom. Here is a more important meta-ethical issue as to whether any company can be deemed unqualifiedly unethical.

By using the comparative approaches to corporate crime and organized crime, they debate the answer to this issue, a variety of counter indicators arrive in the surf, ethically to normal, ethical objectivity about war-related firms. And the ethical presumption as for corporations is contrasted with the good firm. He ends with the challenge of identifying criminal activities, and he also considers that his experience in industry and reverence for ethicists in the area of human rights are extended. While Islamic mark organizations do not infringe on human rights, they specifically describe illegal activity. The influence of the Islamic symbol on corporate governance in this report. Corporate governance will evolve with the mark of Islam and then corporate governance will become strong corporate governance. Discipline is a positive trait of corporate governance. Honesty, discipline, openness, openness, justice, social responsibility. All these aspects are changing with the Islamic brand of corporate governance. The Islamic logo has almost no literature suggesting strong corporate governance.

There is only one paper (Hayat and Hassan, 2017) that finds that an Islamic brand has a huge influence on corporate governance. Islamic label companies do higher, they notice than non-Islamic firms. But because of this reality, because of Islamic finance, there is a lot of literature. In recent years, the finance sector has been rising quite rapidly and Islamic finance industries are in compliance with Islamic laws and regulations, there are ethically correct and equal transactions. Ibrahim (2015) has argued that the fast-growing Islamic finance sector is underlined in several surveys, this report is about finance and Islamic banking. This particular emphasis is on the study of the stock market and Islamic finance banking. He argues that Islamic finance varies from traditional finance, proving this with the statement that Islamic finance is restricted to the analysis of its results. Islamic finance 's future study is aimed at putting Islamic finance in appropriate theoretical settings Islamic framework outside the argument that it varies from traditional funding. Furthermore, its impact on economic policies and well-beings such as stabilization policies have been seen empirically and theoretically.

Beck et al. (2010) observed that Islamic banks had a higher standard of deposits, a greater capitalization and a higher intermediation ratio, but less cost-effective Islamic banks. They also find evidence from studies that Islamic banks are large cross-country types, as well as Islamic banks are of varying sizes, and Islamic banks are not disinterred during the crises. The Islamic banks have increased stock production throughout the time because of their higher asset quality and high capitalization. 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). In the report, Farook (2007) found that the primary goal of commercial banks is to increase the bank 's earnings. He typically sees Islamic banks, since they conform with the letters of Islamic law, even operate as a commercial bank. Islam forbids Riba, but their benefit is protected from Riba, and sukuk has Islamic banks.

Sukuk is a bond compliant with sharia (the Arabic term meaning legal instrument). One of the missions of Islamic banks to work for this is among people for the purpose of establishing a deepening of the holy spirit and for the creation of an Islamic society. The foundation for the life of Islamic banks is the divine spirit and moral point of view. The rules and regulations of Islamic Shariah are closely observed by Islamic banks to ensure that all their operations conform with Islamic laws and ensure they reflect Islamic principles from their business activities and actions (Ahmad and Hassan (2007).

Islam is a philosophy that promotes justice. The ideals of Islamic justice offer guidelines for the management of many kinds of enterprises. The judiciary requires interactions, negotiations and the execution of contracts. Therefore, Muslims are truthful, sincere and fair in their business dealings, both in terms of quality both precision when providing goods and services to their clients. Justice is promoted by the Islamic corporate ideals of fair rights in labour management. Wages and payments are determined on the basis of competencies and merits when recruiting persons. The allocation of equal income is also included in Islamic justice (Borgsteede et al. 2006). Baele et al. (2014) describe a detailed dataset from Pakistan for the purposes of comparing default rates on Islamic loans and traditional loans over the period 2006-2004 to 2008-2012 using more than 150000 loans. The default rate on a traditional loan is more than half of the Islamic loans, from robust data they collected. The default rate on Islamic loans is potentially lower in major towns and throughout Ramadan. In determining the political default loan, religious parties raise their share of votes- suggesting. This either affects network or through individual goodness may play a role in it.

2.2 Firm Life stages and Corporate Governance

The ultimate objective of corporations to optimise shareholder capital is questioned by agents who, as pointed out by Jensen and Meckling (1976), can behave in their self-regard somewhat than in the concern of shareholders. In recent decades, corporate governance analysis has recognized the key settings that aim to lessen the issue of the agency, such as the board of directors, executive pay, the corporate management market, concentrated assets and financial surveillance. Therefore, analyses in corporate governance primarily emphasis on the foregoing fields of corporate governance analysis. Researchers have thoroughly researched the factors affecting the overall level of corporate governance in an effort to extend our understanding of the organization crisis. Overall, a variety of variables were identified by government prediction studies impacting the standard of government regularly. At the business level, organizational size, growth prospects, external funding requirement, asset tangibility, and cross-listing rank are several variables generally considered important predictors of corporate governance.

Corporate governance has recently appeared in accomplished and public discussions, but corporate governance has had a long history since the principal-agent problem was identified by Jensen and Meckling (1976). The existence of the principal-agent question advances a conflict between the interests of managers and shareholders as a result of the difference of ownership and control. Many studies have made substantial contributions by surveying the role of corporate governance in minimising the agency's problem. Corporate governance is becoming a relevant area in literature.

The industry faces adverse repercussions. Since corporate governance was the main subject of the 1997 Asian financial crisis and the 2007 Enron debacle. The topic of corporate governance is multi-dimensional. Corporate governance is the central element of any business that demonstrates the health of the organization of the company and the ability to withstand crises. In order to link the health of any corporation to the soundness and other components of the governance system and their connexion (Coleman et al., 2006).

Furthermore, the key factor that improves the stability of any organization, which includes: good governance structure, soundless regulation, successful monitoring. According to the Office of the Comptroller of the Currency, the causes of corporate failure relate to corporate governance practices such as hostile board of directors or management operations, CEO-related problems, and shortcomings in board control and management. Bad management shortcomings and slow enforcement of rules and regulations increase the risk of failure.

In addition, managers illuminate the overall goal of the business with their personal interest, rather than optimising shareholder value and ensuring the longevity of the company in the future. The organisation therefore pursues the hypothesis that the opportunistic conduct of corporate managers triggers the issue of the division of authority by the corporation. The process of corporate governance not only improves the effectiveness of the company, but also creates opportunities for remote resource reallocation. Studies have used the CG variables as a corporate evaluation of the governance practises of Australia to explore the correlation between corporate governance practises and financial distress. They find that corporate governance, as well as helping to survive from hardship through corporate governance practises, has a huge impact on financial results and bankruptcy.

The concept of corporate governance is widely debated by philosophers, but all of them point to the same characteristics. So, corporate governance is classified into two distinct trends by researchers. First, the company's actual conduct, including all other stakeholders, in the manner of internal control such as performance evaluation, effectiveness, financial formation, growth and interacting with shareholders.

Researchers use R & D costs, exports, cash reserves, and ownership arrangement much less frequently. Each of the fullest set of firm-level features is used by Black et al. (2006) via the incorporation of business risk, debt, profitability, market share, money and marketing investment. While existing corporate governance studies have increased our understanding of variables that influence corporate governance effectiveness, This line of analysis has been quiet on the dynamic nature of organisations' needs for corporate governance. In fact, although the agency's theory suggests that corporate governance functions are static and function solely in the oversight framework of owner-agent partnerships, Filatotchev et al. (2006) suggests a complex role of corporate governance moving through various life cycles and executing roles of supervision, capital, and policy.

In the above perspective, corporations can optimize shareholder capital by adjusting corporate governance to the organization's various needs, rather than retaining corporate governance. Instead of establishing a consistent structure, the importance of corporate governance differs across multiple lifecycle periods. Filatotchev et al. (2006) indicates that there is a differing optimum degree of corporate governance throughout the organizational life cycle, resources monitoring, and strategic requirements implicit in each life cycle that requires unique aspects of corporate governance, consistent with this statement. Wright et al. (2013) expands the life-cycle concept of Filatotchev et al. (2006), adding features of financial and entrepreneurial firms. While the ultimate premise seems obvious, literature on the development of corporate governance in the life-cycle stage is scarce.

The partnership between corporate governance and the lifecycle suggested by Filatotchev et al. (2006) is reinforced by the results of O'Connor and Byrne (2015b) as corporate governance tools, policy, and monitoring roles are important at various stages of the business. Moreover, Loderer et al. (2012) argue that the level of governance continues to wane as companies mature.

Franks et al. (2012) analyses the history of family businesses following an IPO using a cross-section of countries about their corporate structure. Similarly, Helwege et al. (2007) analyzed the arrangement of ownership within U.S. corporations as they grow since becoming public. The relationship between financial factors and the business life cycle has been explored by other scholars. DeAngelo et al. (2006) notice that as the fraction of received to contributed capital rises, the tendency to pay dividends rises; mature businesses are also more likely to pay dividends. Investments and stock issuance decline during the business life cycle, while debt issuance and cash reserves rise (decline) in the early (mature) stages of the business life cycle, Faff et al. (2016) discovered.

While it is appealing to expect that organizations follow a uniform template according to the life cycle, there may be some organizational transition at various levels and corporate governance standards may be more varied for businesses at the same period than commonly assumed. As companies, defined by Miller and Friesen (1984), can go through stages in various sequences; for example, after a phase of maturity, companies may decide to improve creativity, whereas other mature companies state decline stage.

Since strategic priorities can differ dramatically, the basic for improvements in management, personnel, and corporate governance does not follow the same trend compared to equivalent established organizations. Phelps et al. (2007) create a multi-dimensional model of company states in which crises or difficulties will arise at multiple points during the time. The life of the company; this paradigm is more compatible with the current global operating landscape than with the concept of a fixed life-cycle period.

In line with this perspective, the tendency to pay dividends is used by Banyi and Kahle (2014) to illustrate that the life-cycle strategy (using the earned / contributed capital ratio) does not consistently justify payout policy as it relies on specific considerations, such as the IPO year, firm size, and economic variables (such as the 2003 dividend tax cut).

Financial factors are also not inherently contingent to the lifecycle of the organization. At any point in time, corporate governance priorities relating to management, capital, and policy can differ by particular firm situation rather than by a single life-cycle level.

A cross-sectional analogy is theoretically unfeasible in this case, when a popular organizational lifecycle does not occur (Miller and Friesen, 1984). In this analysis, we assume that the organization pursues an ideal degree of corporate governance based on its specific business needs, including supervision, finances and policy, regardless of the previous requirements.

Perceived life-cycle standards for corporate governance. In fact, we contend that a stronger corporate governance indicator is firm self-selection to be more tightly regulated; comparable to the theory of bonding (Doidge et al., 2004).

Companies in search of fresh funding can become more open by listing on a tougher stock market and signaling this progress. Companies may either cross-list internationally on the stock market of a country with more strict listing and monitoring criteria, such as the US, to bond using a stock exchange listing, and/or opt to stay at home but switch to a listing level on a local stock exchange, whose governance standards are just as costly as those required for companies listed internationally.

As suggested by Filatotchev et al. (2006), we analyze whether the corporate lifecycle has an effect on corporate governance using evidence from Black et al. (2014) on Brazilian corporations. Furthermore, by implementing an exchange listing standard that satisfies the organization's governance requirements, compatible with the speculations of Phelps et al. (2007), we examine whether businesses self-select into tighter enforcement independently of lifecycle forecasts.

2.3 Control Variables

2.3.1 Dividend Payout and Corporate Governance

Corporate governance stands for prudent management of businesses directed towards the development of long-term wealth. A primary factor of viable corporate growth and long-term competitive advantage (Madhani, 2007a) is strong corporate governance. The settlement of corporate disputes between minority and major owners, management and shareholders, and between shareholders and creditors would be encouraged by a strong structure of corporate governance.

In general, corporate governance protects taxpayers from administrators who instigate self-dealing, corporate wealth fraud and misconduct (Dalton and Daily, 1999). Corporate governance 's wider aims are to preserve the benefit of shareholders, to protect the interests of shareholders and all other stakeholders, including consumers, vendors, staff and society as a whole, to ensure total accountability and honesty of contact and to make absolute, detailed and transparent information accessible to those concerned (Shukla, 2008). Disclosure is an essential aspect of corporate governance as it enables the company's success to be tracked by all market stakeholders. A recommendation released by the OECD (2006) also states that all material concerns relating to a company's corporate governance should be reported in a timely manner. Good practice in corporate governance transparency Disclosures must, however, be simple, succinct and factual and regulated by the concept of content over form.

The implementation of good corporate governance practices by Chen & Findlay (2003) is a major challenge for business organizations, especially those in developed countries. In many nations, particularly the Gulf countries, the need for strong corporate governance is stressed in Claessens et al. (2000) as many countries are hit by financial crises in 2008. In some cases, Davies (2016) allows administrators and staff to understand their actions and to understand the need for rules and regulations and to handle them according to their needs. Corporate governance includes fundamental rules and regulations to control corporate entities, whether commercial or otherwise, regardless of their types. Charantimath (2005, p.219) believes that corporate governance takes us together at a time for the debate of essential (right) problems at the right moment with the right people.

A successful structure of governance processes should guarantee consistency with all stakeholders' relevant regulations, guidelines, rules, rights and duties, and should also help firms to prevent expensive litigation, particularly those relating to shareholder claims and other disputes arising out of fraud, conflicts of interest, collusion and bribery, and insider trading. Exhaustive transparency by companies has allowed investors to make smarter investment decisions, according to Ho, et al. (2008). Companies' disclosure can be classified as mandatory disclosure and voluntary disclosure. In recent corporate governance and accountability reports, voluntary disclosure, often described as information in excess of mandatory disclosure, has gained a growing amount of attention from scholars. Due to the inadequacy of compulsory transparency for companies, the constructive Corporate action, such as mutual transparency, provides investors with the information required to make more informed decisions (Madhani, 2007b).

Bad management shortcomings and slow enforcement of rules and regulations increase the risk of failure. In addition, managers illuminate the overall goal of the business with their personal interest, rather than optimizing shareholder value and ensuring the longevity of the company in the future. The organization therefore pursues the hypothesis that the opportunistic conduct of corporate managers triggers the issue of the division of authority by the corporation (Fama et al, 1983a).

The corporate governance process not only enhances the company's efficiency, but also creates opportunities for remote resource reallocation. Henry, 2008, using the CG variables as a corporate assessment of Australia 's governance practices to investigate the correlation between corporate governance practices and financial distress. They find that corporate governance has a huge effect on financial results and bankruptcy, as well as helping to survive from hardship by corporate governance practices.

Agency theory offers a structure that relates disclosure actions to company-specific attributes, according to Jensen and Meckling (1976), as corporate governance frameworks are applied to monitor the issue of the organization and ensure that management behave in the interests of shareholders. The effect on organizational disclosures through internal compliance processes can be complementary or substitutive.

If it is complementary, agency theory suggests that since the introduction of more compliance structures, a greater degree of reporting is expected to improve the internal regulation of organizations and provide an intense oversight system for an organization to minimize opportunistic activities and knowledge asymmetry (Knutson, 1992). In this case, in such an intense surveillance environment, administrators are not likely to hide information for their own benefit, leading to changes in both the depth and consistency of transparency (Apostolou and Nanopoulos, 2009).

If the relationship is substitutive, on the other hand, businesses may not have further disclosures for further frameworks of governance because one another one may replace the corporate governance mechanism. Since big companies rely on capital and prefer more frequently than small firms to go to the stock exchange for their financial needs, those firms need comprehensive information (Kamran and Nicholls, 1994). Other reasons exist for the favorable correlation between amounts of size and transparency. Smaller businesses may be at a competitive disadvantage to larger businesses in the same field and will not report openly out of fear of competition (Singhvi and Desai, 1971) because it may endanger their competitiveness. In comparison, for smaller businesses, the cost of producing knowledge may be high. Big businesses will be able to withstand the expensive information collecting and retrieval process and thus display more openness (Buzby, 1975).

Freeman (1987) and Lang and Lundholm (1993) claim that the "differential knowledge theory" results in a comparatively higher degree of transparency (that is, procurement of knowledge) by managers from big organizations than their smaller business counterparts. The company's size is the most consistently reported attribute that reflects the discrepancies in corporations' involuntary disclosure (Foster, 1986). Agency theory is due to the favorable association between scale and degree of transparency, suggesting that agency expenses are strong for big corporations (Leftwich, 1981) while shareholders are broad (Alsaeed, 2006). Since big corporations have more department resources and a greater range of ownership, more detail is exposed (Meek et al., 1995).

2.3.2 Earnings Per Share and Corporate Governance

Boards of directors are also alleged to be more sovereign as the number of their outsider directors rises (John and Senbet 1998). Fosberg (1989), however, finds no correlation between the percentage of outsider directors and different success metrics (i.e. SG&A costs, revenue, number of staff, and equity return); Hermalin and Weisbach (1991) find no link between the percentage of outsider directors and Tobin's Q.

Bhagat and Black (2002) do not see any relation between the proportion of outsider directors and Tobin's Q, assets return, asset turnover and stock returns. Rosenstein and Wyatt (1990) demonstrate, on the other hand, that the market favors corporations for naming outside directors. They discovered a favorable association between the percentage of outsider directors and the response of the stock market to the introduction of poison pills. Mansi and Reeb (2004) prove that interest rates, as supported by bond yield spreads, are inversely connected to the independence of the board. The partnership is thus mixed between the proportion of external directors, a proxy for separation from the management, and firm results. Studies using data from financial statements and Tobin's Q find no relation between board independence and company results, while studies using data from equity returns or bond yield data find a favorable correlation.

This study particularly does not expect Tobin's Q to increase board independence, along with Hermalin and Weisbach (1991) and Bhagat and Black (2002), but we do expect that firms with liberated boards have better asset returns, higher profit margins, greater dividend yields, and bigger stock repurchases, indicating that board independence is correlated with other important calculation independence. It is claimed that reducing board size increases business efficiency because the advantages of improved oversight by larger boards are outweighed by weaker contact and decision-making by larger bodies (Lipton and Lorsch 1992; Jensen 1993). Yermack (1996) records an inverse relationship between board size and profitability, asset use, and the Q of Tobin, consistent with this notion. Klein (2002) records the unfavorable association between earnings control and integrity of the audit committee, and Anderson et al. (2004) notice that there are lower debt servicing rates for fully separate audit committees.

Frankel, Johnson and Nelson (2002) show a negative association (based on audit vs non-audit fees) between earnings management and auditor independence, but their evidence is refuted by Ashbaugh, Lafond and Mayhew (2003) and Larcker and Richardson (2004).Kinney, Palmrose and Scholz (2004) find that there is no association between earnings restatements and fees charged for the creation and execution of financial information systems or internal audit services, and Agrawal and Chadha (2005) found that either the competence of the audit committee or the extent to which auditors offer non-audit services are not linked to the possibility that a company will restate its earnings. A material impact of expensing stock options on return on assets is noticed by Botosan and Plumlee (2001).

As of September 1999, they use Fortune 's list of the 100 fastest growing businesses, which measure the impact of expensing stock options on the operating performance of firms. The study uses a wider sample, on the other hand, to compare companies that do and do not invest. The relationship between corporate governance and company success has been explored in various studies (Yermack, 1996), with mixed outcomes.

Adjaoud et al. (2007) concluded that there is no evidence that the board 's characteristics have a hierarchical association. A constructive association between corporate governance and company performance was noted by Bhagat et al. (2000) and Weir et al. (1999). Corporate governance stands for prudent management of businesses directed towards the development of long-term wealth. A primary factor of viable corporate growth and long-term competitive advantage (Madhani, 2007a) is strong corporate governance.

The settlement of corporate disputes between minority and major owners, management and shareholders, and between shareholders and creditors would be encouraged by a strong structure of corporate governance. In general, corporate governance protects taxpayers from administrators who instigate self-dealing, corporate wealth fraud and misconduct (Dalton and Daily, 1999).

2.3.3 Tobin's Q and Corporate Governance

Jensen (1986) appears to be very keen to examine how the financial structure and company worth are directly or indirectly affected by corporate governance. Driffield et al. (2007) reported that a higher concentration of ownership has a favorable effect on the allocation of capital and firm valuation. In the other example, the lower concentration of ownership depends on the strictness of management decision-making that enforces a transition in the composition of resources. An important component of CG may be the ownership structure (Shleifer & Vishny, 1986; Desender, 2009).

As a governance tool, the efficacy of the board structure will depend on the overall size of the company's shares (Cho and Kim, 2007). It has been claimed, using main-agent logic, that a diffused control system offers a significant opportunity for corporate managers to become influential players within organizations. This scenario may be especially prevalent in the sense of developed countries that, relative to Western countries, have special firm-ownership characteristics.

Daily and Dalton (1994) have found that by examining the fifty matched pairs of bankrupt businesses, CEO duality and lower independence of directors are correlated with a higher risk of bankruptcy. The influence of the concentration of ownership on financial distress is not much clearer. Lee and Yeh's (2004), however, found that the concentration of ownership raises the risk of financial distress.

It is also an essential aspect of corporate governance practices to report financial details. Recent research shows that higher levels of financial information transparency minimize the asymmetric information between managers and customers, which helps to reduce the issue of the agency and improve the financial position of the firm. The effect of the asymmetry knowledge reduction increases investor interest and reduces capital costs.

In Pakistan, for example, a vast number of corporations (e.g. family enterprises, corporate associations and state-controlled firms) are tightly owned corporations. Pakistan's major governance problem emerges from the possibility of expropriation at the detriment of minority shareholders by the majority or controlling shareholders of companies (Javid and Iqbal, 2008).

Previous work also observed that the relationship between TQ and the proportion of shares held by institutional investors was strongly positive. Morck et al. (1988) examined, as calculated by TQ, the relationship between management ownership and the market value of businesses. Their analysis of 371 Fortune 500 businesses showed signs of a substantial monotonic relationship; TQ first rose, then decreased, before eventually growing marginally in line with the BoD 's rise in ownership.

Vance (1964) and Pfeffer (1973) have commented on how CG could be strengthened by the inclusion of independent non-executive directors. The effect of the involvement of outsiders on firm reputation was investigated and a positive correlation between outside members of the Board and corporate success calculated in terms of TQ, ROE and ROA was therefore established. There has also been a favorable connotation between independent directors and company results in a variety of other observational studies (Pearce and Zahra, 1992). The varied results of CEO duality and the possibility of business failure are demonstrated by empirical studies.

A negative association between independent directors and company success has been established by Bhagat and Black (1999). A survey of 142 US-based public limited companies was used by Hermalin and Weisbach (1991) and consequently reported that different proportions of external board members make little apparent difference, but rather had a negative influence on company profitability, as measured by Tobin's Q. Between 1984 and 1991, Yermack (1996) researched and evaluated the governance and financial data of 452 major US businesses and identified an inverse relationship between board size and the TQ valuation of firms. Yermack used defined, random and ordinary least squares (OLS) frameworks to validate the robustness of its preliminary results and replaced the TQ value with other financial measures, including return on assets (ROA) and return on sales (ROS).

2.4 Research Framework

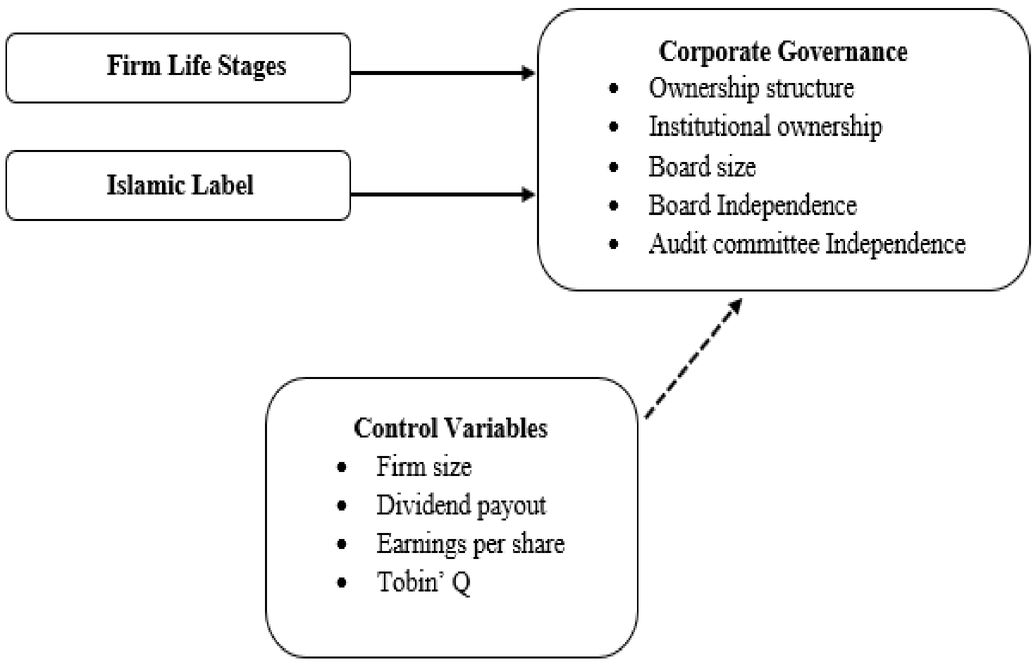

FIGURE 2.1: Research Framework

2.5 Hypotheses Statements

H_1: Shariah compliant status has a significant impact on firm's corporate governance.

H_2: Firm life stages has a significant relationship with corporate governance.

Chapter 3

Research Methodology

3.1 Data Description

This section shows that research methodology that were finalized to examine the study and highlighted the sources of data collection.

The purpose of study was to determine the impact of shariah compliant status and firm life stages on corporate governance in non-financial companies of Pakistan. The sample size of research were 84 non-financial firms in which period from the year 2015-2019. Sample consist of numerous non-financial manufacturing industries such as: sugar, spinning, cement, chemical, miscellaneous, food & personal use, oil and gas, pharmaceutical, power and distribution, automobile, technology and communication, fertilizer, gas and ceramics, paper and board, transport, leather and tanneries, tobacco and vanaspati and allied. The reason of choosing the non-financial firms is due to Shariah compliant status which majority of the financial institutions do not possess.

Secondary data were obtained and gathered from the firm's annual financial reports and statements published on Pakistan Stock Exchange for the period of 2015 to 2019. Some of the data missingin annual reports regarding firms' specific variables were gathered from the State Bank of Pakistan but if some type of data not available on SBP site then gathered from the company's official websites. The published documents of State Bank of Pakistan, FSA & BSA.

For the examination of empirical analysis, in research work apply a descriptive analysis, correlation analysis with multicollinearity check and regression models. A descriptive analytical table shows to obtain a sample characteristic. The principal component analysis (PCA) is conducted to calculate corporate governance index (CGI) which is dependent variable.Panel data regression is conducted to calculate results on CGI (dependent variable), Islamic label and firm life stages (independent variables), also control effect of Firm size, dividend payout, earnings per share and Tobin's Q.

3.2 Population and Sample of the Study

The population of this research work were non-financial firms that were registered on Pakistan Stock Exchange. In the research work stratified random sampling were used for the improvement of analysis and findings regarding study hypotheses. Since, not every firm releases annual financial reports while some go for quarter based analysis. Therefore, only those firms have been selected whose annual reports and financial statements include the certain variables required for this study. According to corporate governance goodness cost of capital improvement is mandatory for all non-financial firms those were registered on Pakistan Stock Exchange. Corporate governance is dependent variable in this study and firm life stages and Islamic label were independent variables and control variables include firm size, dividend payout, earnings per share and Tobin's Q.

3.3 Sample Classification

The below **Table: 3.1**, shows that 84 firms selected from non-financial firms to make sure an equal chance for every industry over the period of 2015-2019. 10 sugar mills and 5 spinning mills data taken from these firms. 07 cement firms and 09 chemical firms included for data strength. 07 firms taken from the food and personal use and 06 firms taken from the oil and gas industry. 04 firms taken from the pharmaceutical and 06 power distribution industry. 06 firm from automobile and 06 from technology and communication. 04 firms from fertilizer and 04 also form glass and ceramics industry. 04 firms taken from the paper and board and 01 from transport industry. 03 leather and tanneries and 01 from tobacco industry takes for data strength in data collection. 01 firms have been taken from the vanaspati and allied.

TABLE 3.1: Sample Classification

Industry	**No. of Companies**
Sugar	10
Spinning Mill	5
Cement	7
Chemical	9
Food and Personal Use	7
oil and gas	6
Pharmaceutical	4
Power and Distribution	6
Automobile	6
Technology and Communication	6
Fertilizer	4
Glass and Ceramics	4
Paper and Board	4
Transport	1
Leather and Tanneries	3
Tobacco	1
Vanaspati and Allied	1
Total	84

3.4 Measurement of Variables

3.4.1 Dependent Variable

3.4.1.1 Corporate Governance Index

By using various elements as proxies, corporate governance is calculated. This study used the arrangement of ownership structure, institutional ownership, board size, board independence, and audit committee independence for this reason. Using Principal Component Analysis, the Corporate Governance Index is a mathematical approach that uses a transformation to translate a set of measurements of potential associated variables into a set of values of linear uncorrelated variables called principal components.

3.4.2 Independent Variable

3.4.2.1 Islamic Label

In this analysis, the independent variable is the Islamic name, which is the definition of businesses produced according to Islamic laws and regulations. A dummy variable is an Islamic mark. If a business is Islamic, a dummy attribute equals 1, and 0 otherwise.

3.4.2.2 Firm Life Stages

Another independent variable is firm life stages in this study. All 84 non-financial listed firms are classified into their life cycle stage in every current year. This study have used firm size as a proxy to determine the firm life stage as per the lanalysis reviewed by Miller & Friesen, (1984); Zhipeng, (2006).

The different estimates were derived from the annual financial statements of the firms. A credible business paper released for the benefit of the public and the different stakeholders is the annual financial report. In evaluating the descriptive figures, the judgement rule is that all of the panels that displayed support for current economic projections are said to help illustrate the principle of the Firm Life Cycle Stages. Firms are given scores from 1–4 according to their age as given in table below:

Firm Age	**Score**
1-10 years	1
11- 25 years	2
26- 40 years	3
41 and above years	4

3.4.3 Control Variable

3.4.3.1 Firm Size

It can also be measured in other respects, but the scale of the company was measured in this analysis by taking the natural log of total assets as provided by (Burke and Day, 1986) and (Shumway, 2001).

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

3.4.3.2 Dividend Payout

Another variable that might affect corporate governance is dividend payout. Its effect will be controlled as per suggested by Hayat, R. and Hassan, M. K. (2017). Most of the annual reports and financial statements have already reported the DP value but those who were missing were calculated using the formula given below:

$$\text{Dividend payout} = \text{Dividend per share (DPS) / Earnings per share (EPS)}$$

3.4.3.3 Earnings Per Share

Earnings per share is the monetary value of the outstanding shares of common stock. Therefore, it does have some effect on Corporate governance (Hayat, R. and Hassan, M. K. (2017)). Majority of firms' financial statements and annual reports testify EPS value. If missed in any report, the following formula is used to calculate:

Earnings per share (EPS) = Total earnings / Total number of outstanding shares

3.4.3.4 Tobin's Q

TQ (Tobin, 1969) is the ratio between the selling value of a physical commodity and its replacement value. The total value of a company's assets is determined by the market value of its remaining equity and debt, while the net value is used to calculate the replacement cost of the assets. A ratio of 1 or more means that the stock value of the corporation exceeds that of its reported properties. According to Hayat, R. and Hassan, M. K. (2017), Tobin's Q does have a controlling effect on corporate governance, therefore, the value is calculated using the formula given below as no financial statements report it annually.

Tobin's Q= (Total market value + liabilities) / (Total asset value + liabilities)

3.5 Estimation Techinique

3.5.1 Principal Component Analysis (PCA)

This research used Principal Component Analysis (PCA) methodology to create a corporate governance index to assess the effect of non-financial listed companies' Shariah compliant status and business life stages. Instead of using corporate governance variables separately in regression (Agrawal & Knoeber 1996), the purpose of using this approach is to monitor the issue of mulitcollinerity (PCA). Another benefit of this PCA is that the weights are automatically created for each corporate governance component. This describes the volatility of multiple corporate governance factors, thus the unnecessity of weight pre-determination (Ammann et al. 2011).

3.5.2 Panel Data Analysis

The research used a fixed effect model to assess the effects on corporate governance of the Islamic logo and business existence phases. The benefit of panel data is that it raises the number of measurements, reduces the three-dimensional variables (multicollinearity), degrees of freedom and, in fact, consistently increases the results in the case of lower years (Jensen, 1993).Second, pooling allows the exogenous pathological shocks (time-effects) of all banks to be managed and thus eliminates the excluded component and its bias (i.e. unit effects).

There are two dimensions of panel data: the cross-sectional data axis denoted by "n" and the time series details denoted by "t."It is assumed that the estimation of panel data estimators would be more complex than either cross-sectional data or time series data. However, in some situations, the availability of knowledge from the panel will help simplify calculation and logic.

For all but explanatory variables, the pooled regression detected homogeneous behaviour of an endogenous variable in the sampling period (means the same slopes and intercepts).Therefore, several other alternative estimation approaches have increased the reliability of the panel results, such as fixed and random effects. In comparison, since unknown variables are correlated to independent variables, OLS pooled calculation methodology may be contradictory and skewed such that we can not explicitly pick this measurement technique.

We can quickly solve this economic difficulty by using either random or fixed effect estimators.The Hausman test decides whether random or set effects are more fitting. Random event denial suggests or favours the appropriation of the paradigm of fixed effects (Gujarati, 2009). In the present analysis, random effect speculation is favoured using the Hausman test.

3.5.2.1 Common Effect Model

For all but explanatory variables, the pooled regression detected homogeneous behaviour of an endogenous variable in the sampling period (means the same slopes and intercepts).Therefore, several other alternative estimation approaches have increased the reliability of the panel results, such as fixed and random effects. In comparison, since unknown variables are correlated to independent variables, OLS pooled calculation methodology may be contradictory and skewed such that we can not explicitly pick this measurement technique. The study can quickly solve this economic difficulty by using either random or fixed effect estimators.The Hausman test decides whether random or set effects are more fitting. Random event denial suggests or favours the appropriation of the paradigm of fixed effects (Gujarati, 2009). In the present analysis, random effect speculation is favoured using the Hausman test.

$$\gamma_{it} = \alpha_0 + \beta_1(\chi)1_{it} + \mu_{it} \tag{3.1}$$

where, γ is the dependent variable and χ represents all independent variables, i represents all firms at time t and μ is the error term.

3.5.2.2 Fixed Effect Model

This model suggests that for each cross section, the intercept will not be the same, but will be distinct for each cross section. In this procedure, a separate dummy is used to demonstrate the degree of dissimilarity between each cross section's intercept. It is also called the dummy vector with the least rectangle. Intercept is distinct for each unit because of the variety of data; the fixed effect model will thus be the better model for estimation. When the regular F-statistic is relevant and so a fixed effect model is implemented, the hypothesis of the same intercept will be ignored, otherwise the typical effect model would be used for the calculation. It is possible to write the fixed effect model as follows:

$$\gamma_{it} = \alpha_0 + \beta_1(\chi)1_{it} + \beta_2(\chi)2_{it}.....\beta_k(\chi)kit + \mu_{it} \tag{3.2}$$

3.5.2.3 Random Effect Model

The random effect model is based on the premise that for all cross sections and time intervals the intercept is different, but here in this model it is checked whether or not the intercept fits a standardised pattern. It assumes that since it takes a random path, beta is not important. Interpret is treated as a concept in the random effect paradigm and does little about cross sections (companies). The difference among the various businesses is clarified by this model. The following advantages are given.

- In contrast with the fixed effect model, the random effect model requires less parameters to predict.
- It requires additional independent variables of the same number of measurements to be allowed.

The equation of Random Effect model is given below:

$$\gamma_{it} = \alpha + \beta_1(\chi)1_{it} + \beta_2(\chi)2_{it}..\beta_k(\chi)k_{it} + (\nu_i + \mu_{it}) \quad (3.3)$$

The Hausman test is used to select between the fixed effect model and the random effect model. If test yields a significant value, fixed model will be used. Otherwise the random effect model is applied.

3.5.2.4 Hausman Test

The purpose of the Hausman test is to explain the fixed effect or random effect model possibility given that if p value was significant (< 5 percent confidence interval), then fixed effect model may be implemented, but if p value was greater than 5 percent, the analysis implemented random effect model and vice versa in case p value was not significant.

3.6 Model Specification

In this study, the panel regression model is used to investigate the impact of Islamic label and Firm life stages on corporate governance of non-financial firms. For corporate governance aspects, different inspectors used various variables. It is so difficult, according to previous literature, to select the best elements of corporate governance among investigators.No consensus on corporate level variables for the prediction of corporate governance for inquiry is, however, beyond the researcher's point of view. Each individual investigator uses various parameters of corporate governance, but in the case of past literature and outcomes, it is very difficult to determine what kind of corporate governance variables were best as corporate governance structures.By following the literature, we choose Board Size (BS), Board Independence (BI) Audit committee (ACI), ownership structure and institutional ownership as corporate governance determinants, which are widely used in previous empirical studies (i.e. Klein, 2002, Jensen, (1993); Yermack, 1996, and Lipton and Lorsch, 1992).Mentioned below is the econometric model of the study:

$$CGI_{it} = \alpha_0+\beta_1 IL_{i,t}+\beta_2 FLS_{i,t}+\beta_3 FS_{i,t}+\beta_4 DP_{i,t}+\beta_5 EPS_{i,t}+\beta_6 TQ_{i,t}+\mu_{i,t} \quad (3.4)$$

All variables are denoted by i for a single cross-section unit (i = 1, n) and t is denoted at time (t = 1, t).

Where,

CGI = Corporate governance index

IL = Islamic label

FLS = Firm life stages

FS = Firm size

DP = Dividend payout

EPS = Earnings per share

TQ = Tobin's Q

Chapter 4

Data Analysis and Discussion

4.1 Descriptive Statistics

Table: 4.1 shows the descriptive analysis for all variables of this study for the period 2015 to 2019. The conduct of the data is examined to assure its precision before running any other statistical tests.

Descriptive statistics show the general behavior of data including dependent variable as well as all independent and control variables.

The descriptive statistical table contains the value of mean, median, minimum and maximum values, and values of standard deviations of all variables.

The mean value shows the average of data, where as standard deviation shows how much 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 an empirical analysis.Descriptive statistics of corporate governance and other variables are separately using PCA (Principal component analysis) to construct index are given below during the study period, 2015 to 2019:

TABLE 4.1: Descriptive Statistics for the Period of 2015-2019

Variables	**Mean**	**Median**	**Max**	**Min**	**Std. Dev.**
CGI	0	0	3.0854	2	1.4888
IL	0.763	1.0000	1.0000	0.0000	0.489
FLS	3.3238	3.0000	4.0000	2.0000	0.7145
FS	6.3617	6.9863	22.162	0.4161	2.3176
DP	2.1460	0.7293	4.793	1.7	1.3273
EPS	21.233	15.380	75.0000	3.090000	14.381
TQ	1.6702	1.6314	4.9725	0.018300	1.1324

Note: CGI= Corporate governance index, IL=Islamic label, FLS= firm life stages, FS= firm size; DP= dividend payout, EPS=earnings per share, TQ= Tobin's Q

The mean value of the CGI is 0 and its standard deviation is 1.4888 . Its minimum value is 2 and maximum value is 3.0854. The mean value of Islamic Label is 0.763 and its standard deviation is 0.489, minimum value is 0 and maximum value is 1. The mean value of the firm life stages is 3.3238 and its standard deviation is 0.7145, minimum value is 2 and maximum value is 4. The mean value of the firm size is 3.3617 and its standard deviation is 2.3176 and minimum value is 0.4161 and maximum value is 22.162.

The mean value of the dividend payout is 2.1460 and its standard deviation is 3.3273. and minimum value is 1.7 and maximum value is 4.793 . The mean value of the earnings per share is 21.233 and its standard deviation is 14.381. and minimum value 3.09 is and maximum value is 75. The mean value of the Tobin's Q is 1.6072 and its standard deviation is 1.1324 and minimum value is 0.0183 and maximum value is 4.9725.

4.2 Correlation Matrix

To analyze the relationship between dependent and independent variables which are included econometric model, and also to explore the potential multicollinearity issue among variables, correlation analysis is conducted. The correlation analysis results between independent and dependent firm specific variables for the period 2015– 2019 are reported in table 4.2.

Correlation matrix is a technique that explains the interdependency of multiple variables at the same time. The consolidated and reversing relationship among the variables is measured through this statistical technique.

However, in some analysis, it is considered as a weak tool, but still it is a wide approach to beused which tells the degree of association between the variables either positive or negative.

Values closer to +1 represents that the two variables are strongly positively relatedand affecting each other, whereas the values closer to -1 represents that the two variables are strongly negatively related and affecting each other.

The correlation between independent variables should not exceed 0.7 to prove no multicollinearity problem among in dependent 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 depicts multicollinearity problem. Furthermore, according to the above correlation analysis these variables have no multicollinearity problems because almost all the correlation values are below therange of 0.7 as per literature.

Table 4.2: Correlation Matrix

	CGI	**IL**	**FLS**	**FS**	**DP**	**EPS**
CGI	1					
IL	-0.03052	1				
FLS	0.253349	-0.146864	1			
FS	0.076905	-0.186254	0.142452	1		
DP	-0.034722	-0.066139	-0.089839	-0.20654	1	
EPS	0.135465	0.022313	0.174354	0.172748	0.036922	1
TQ	0.033245	-0.014199	0.064792	0.194943	-0.426172	-0.200955

Table 4.2 presents a correlation analysis of all variables used in this study. The value of -0.03052 indicates negative correlation between Islamic label and corporate governance index.

The value of 0.253349 shows positive correlation between firm life stages and corporate governance index. The value of 0.076905 shows positive correlation between firm size and corporate governance index.

The value of 0.034722shows negative correlation between dividend payout and corporate governance index. The value of 0.135465 shows a positive correlation between earnings per share and corporate governance index.

The value of 0.033245 shows a positive correlation between Tobin's Q and corporate governance index. The value of -0.146864 shows negative correlation between firm life stages and Islamic label.

The value of -0.186254 shows negative correlation between firm size and Islamic label. The value of -0.066139 shows a negative correlation between dividend payout and Islamic label. The value of 0.022313shows positive correlation between earnings per share and Islamic label. The value of -0.014199shows a negative correlation between Tobin's Q and Islamic label.

The value of 0.142452 shows a positive correlation between firm life stages and firm size. The value of -0.089839shows a negative correlation between firm life stages and dividend payout.

The value of 0.174354 shows a positive correlation between firm life stages and earnings per share. The value of 0.064792 shows a positive correlation between firm life stages and Tobin's Q.

The value of -0.20654 shows a negative correlation between firm size and dividend payout. The value of 0.172748 shows a positive correlation between firm size and earnings per share.

The value of 0.194943shows a positive correlation between firm size and Tobin's Q. The value of 0.036922 shows a positive correlation between dividend payout and earnings per share. The value of -0.426172shows a negative correlation between dividend payout and Tobin's Q. The value of -0.200955shows a negative correlation earnings per share and Tobin's Q.

4.3 Panel Regression Analysis

In **Table: 4.3**, panel regression analysis of the study has been described.The effect of Shariah complaint status and firm life stages on corporate governance can be explained along with the controlling effect of firm size, dividend payout, earnings per share and Tobin's Q.

The study found the direct and indirect effect of independent variables with different proxies of corporate governance index used through conduction of Principal component analysis (PCA) which include board size, board independence, audit committee independence, ownership structure and institutional ownership.

The study has been found that direct significant or negative role of shariah compliant status and firm life stages for determining corporate governance in non-financing industry of Pakistan.

In addition to this, study also found that direct positive or negative role of control variables for affecting the corporate governance in non-financial sector of Pakistan. Regarding to the direction of likelihood ratio test, fixed model was better suitable for the final interpretation. According to hausman test and redundant test, the random effect model were more suitable for the final interpretation.

The common effect model and random effect model R-square and p values were mostly insignificant and unaccepted range, therefore, modelwas not finalized. For further analysis,fixed effect model was analyzed to interpret results of study.

In the **Table: 4.3**, the outcome of the corporate governance index and Islamic label and firm life stages including control variables are interpreted while using the panel regression analysis with common effect model. A linear panel data model with the helping of non-financial firms' commone effect to examine the results were used.

All the coefficient of independent and interaction terms including control variables are mostly insignificant association with dependent variable, except two variables whose were significant. The value of $R2 = 0.74$ which shows that 74% fluctuation in firm corporate governance due to the independent and control variables correspondingly. In other word firms corporate governance is 74% described by the stated independent variables collectively. According to the outcome of common effect model were mostly p values were insignificant so in this study had not applied common effect model for further discussion.

4.3.1 Common Effect Model

Table 4.3: Common Effect Model

Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	-2.013993	0.491887	-4.094422	0.0001
IL	0.02803	0.227365	0.123283	0.9019
FLS	0.483382	0.102332	4.723661	0
FS	0.013965	0.032837	0.425291	0.6708
DP	0.000972	0.023837	0.040793	0.9675
EPS	0.010148	0.005223	1.942933	0.0527
TQ	0.045601	0.071362	0.639013	0.5232
R-squared	0.740619	Akaike info criterion		3.587347
F-statistic	5.550451	Durbin-Watson		0.518452
Prob(F-statistic)	0.000015			

Hausman test is carried out for the sample of 84 non-financial listed firms on PSX for the period of 2015 to 2019 using the corporate governance index as a dependent variable. The null hypothesis of the Hausman test is that random effect is reliable and efficient and the alternative hypothesis are fixed effect that is consistent and more appropriate.

From the result given below in the table suggests that value of probability is significant and smaller than 0.05, above the insignificant level, therefore the study accepts the null hypothesis and reject the alternative hypothesis.

Indicating that the appropriate model is a fixed effect model. Hence this study considers the fixed effect model as its final model to be used for interpretations.

4.3.2 Hausman Test

Table 4.4: Random Effects - Hausman Test

Test Summary	**Chi-Sq. Statistic**	**Chi-Sq. d.f.**	**Prob.**
Cross-section random	12.735381	6	0.0474

According to the direction of hausman test study were applied random effect model to check the random impact of Islamic label and firm life stages on corporate governance. The table were exploring the impact of independent variables on dependent variable.

In the **Table: 4.4**, the outcome of the corporate governance and firm life stages and Islamic label including control variables while using the panel regression analysis has been shown. A linear panel data model with the help of non-financial firms for period 2015-2019, random effect model is conducted to examine the results.

All the coefficient of independent and interaction terms including control variables were mostly insignificant association with dependent variable, except two variables whose were significant. The value of $R^2 = 0.57$ which shows that 57% fluctuation in firms cost of capital due to the independent and control variable correspondingly. In other word firms corporate governance is 57% described through the state independent variables collectively. The outcome of the random effect model depicts mostly p values were insignificant. Therefore, in this study we did not apply random effect model. The study has been applied fixed model for further interpretation and discussion in our study.

4.3.3 Random Effect Model

Table 4.5: Random Effect Model

Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	-0.084732	0.424443	-0.199631	0.8419
IL	-0.065969	0.291212	-0.226533	0.8209
FLS	-0.020133	0.046672	-0.431376	0.6664
FS	0.035009	0.018307	1.912358	0.0565
DP	-0.006809	0.007158	-0.951249	0.3420
EPS	0.001848	0.002131	0.867069	0.3864
TQ	-0.022406	0.138378	-0.161917	0.8715
R-squared	0.570235	Mean dependent var		-9.98E-16
F-statistic	1.207137	Sum squared resid		42.69977
Prob(F-statistic)	0.301447	Durbin-Watson stat		1.927035

Likelihood test is carried out for the sample of 84 non-financial listed firms on PSX for the period of 2015 to 2019 using the corporate governance index as a dependent variable.

The null hypothesis of the Likelihood test is that fixed effect is consistent and efficient and the alternative hypothesis are random effect that is consistent and more suitable.

From the result given below in the table suggests that value of probability is insignificant and smaller 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 fixed effect model. Hence this study considers the fixed effect model as its final model to be used for interpretations.

4.3.4 Likelihood Test

TABLE 4.6: Likelihood Ratio Test

Effects Test	**Statistic**	**d.f.**	**Prob.**
Cross-section F	97.8211	-83,330	0.000
Cross-section Chi-square	1361.95	83	0.000

4.3.5 Fixed Effect Model

TABLE 4.7: Fixed Effect Model

Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	2.998535	1.481403	2.024118	0.0438
IL	-0.097846	0.36069	-0.271274	0.7863
FLS	-0.031045	0.047878	-0.64843	0.5172
FS	0.035222	0.018875	1.866045	0.0629
DP	-0.005613	0.007211	-0.778394	0.4369
EPS	0.001534	0.002165	0.708596	0.4791
TQ	-1.828145	0.858649	-2.129095	0.034
R-squared	0.963857	Akaike info criterion		0.739856
Adjusted R-squared	0.95411	Schwarz criterion		1.605624
F-statistic	98.88159	Durbin-Watson stat		2.375167
Prob(F-statistic)	0.0000			

Firm size results show that the value of the coefficient is 0.035222 with the p. value 0.0629, which is insignificant since it is greater than 0.05. A positive sign the coefficient shows that a one unit in- crease in firm size, would lead to the

3.52% increase in the corporate governance index. It means as a discipline devise firm size affects good corporate governance, which has explained by Hugill and Siegel (2013). Dividend payout results show that the value of the coefficient is -0.05613 with the p. value 0.4369, which is insignificant. A negative sign with the coefficient shows that a one unit increase in dividend payout would lead to the 5.6% deccrease in the corporate governance. It means dividend payout does not determine firm corporate governance Li and Harrison (2008).

Earnings per share results show that the value of the coefficient is 0.001534 with the p. value 0.4791, which is insignificant. A positive sign the coefficient shows that a one unit increase in board independence, would lead to the 0.15% increase in the CGI. Tobin's Q results show that the value of the coefficient is -1.828145 with the p. value 0.0340, which is significant. A negative sign the coefficient shows that a one unit increase in Tobin's Q, would lead to the 82% decrease in the corporate governance index. It means optimal profit margins will affect corporate governance in making collective decisions as debated by Adams and Ferreira (2009).

The R squared value shows that 96% variation occurred in the corporate governance index (dependent variable) are explained by the independent variables. Islamic label alters the association with corporate governance index in non-financing sector. In above model Islamic label and CGI are originated insignificant regarding to the standard required level of ($p>0.05$). This states that our hypothesis 1 is rejected as there is no significant impact of shariah compliant status on corporate governance of firms. This rejection is supported with the research carried out by Hayat, R. and Hassan, M. K. (2017)as they used Bloomberg corporate governance indices and compared against non-shariah compliant firms. Their studies are aligned to results shown in the above table. In above model Firm life stages and CGI are found insignificant regarding to the standard prerequisite level of ($p>0.05$). This states that our hypothesis 2 is rejected as there is no significant impact of firm life stages on corporate governance of firms. This rejection is supported with the research carried out by Esqueda, O. A., & O'Connor, T. (2020)as they had also suggested that firm life stages are not a beneficial indicator of corporate governance.

Chapter 5

Conclusion and Recommendations

5.1 Conclusion

The empirical study explores the relationship between shariah compliant status and firm life stages with corporate governance index exploring the behavior of non-financial sector in Pakistan towards corporate governance. This thesis incorporates 84 non-financial firms data (74 Shariah compliant firms and 10 non Shariah compliant firms) whose annual non-financial data have been obtained from non financial sectors firms listed in a Pakistan Stock exchange for the period of 2015 to 2019 and Islamic label firms are identified with dummy variable whereas firm life stages are determined using scores 1-4.

Results are devised by creating Corporate governance index using Principal component analysis. This study examines whether shariah compliant status or firm life stages do not indicate better corporate governance. Such an outcome may be predictable because Islamic label cannot alone determine good corporate governance as per argued by Jiraporn et al. (2012) and Hayat, R. and Hassan, M. K. (2017).

Similarly, Esqueda, O. A., & O'Connor, T. (2020) have also indicated in their study that firm life stages are not a good indicator of corporate governance rather it is the listing level that predicts corporate governance using firm regulators. This study also in contrast to the debate that there is no significant impact of FLS on CGI.

Moreover, after applying the panel based OLS estimation technique, it is found that Shariah compliant status of firms and their life stages have insignificant 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 firm life stages in Pakistan context to non-financial firms.

In this study, we suggest that businesses signal changes in corporate governance to the markets by following more strict governance standards. Compared to the company life cycle interpretation, the listing stage judgment is a greater indicator of corporate governance consistency. Companies signify improvements in the priorities of corporate governance by listing at a level of inspection that satisfies the organization's governance needs, consistent with the speculates of Phelps et al. (2007).

The empirical study suggests that hypothesis 1 is rejected in conclusion that there is no significant relationship between shariah compliant status and corporate governance. Hypothesis 2 is also rejected as there is no relationship between firm life stages and corporate governance. However, no major variations are found between Islamic and non-Islamic listed corporations in the standards of corporate governance in Pakistan. In addition, when we reduce the standard of governance on an Islamic dummy and control variables (while taking into account fixed effects), we do not find clear evidence that this dummy is significant. For overall governance quality, we used five proxies and for none of them,the Islamic dummy is significantly positive.

5.2 Recommendations

Based on these empirical evidences, it is the need of the time for legislative authority of Pakistan to improve the mechanism of corporate governance. In this study Islamic label and firm life stages are hypothesized as a marketing tool and quality indicator. This is analyzed that Islamic label does not indicate good corporate governance and neither does firm life stages. Islamic label stock (Shariah compliant) do not perform better than other (non-shariah compliant) companies stocks.

The impact of the Islamic label on corporate governance is insignificant in non-financial firms of Pakistan. Although, this empirical study has many practical implementations, but this is the only study done in Pakistan in context to study the relationship of firm life stages with corporate governance. So this study has some disregarded factors and some constraints. The number of acquisition opportunities, the need for foreign funding, and the concentration of cash flow ownership rights are the best firm-level predictors of corporate governance while adjusting for country-level legislation and compliance. These findings are in accordance with the criteria for tracking and funding but are not generally connected to the life cycle.

5.3 Limitations

The outcomes of this study cannot be generalized to all over Pakistan because this study only limits to the non-financial sector of Pakistan for period 2015-2019. The data are collected from established and capitalized firms that public their financial information on regular basis and which are listed on the Pakistan stock exchange. All results were interpreted with caution as there were few limitations in this study. First, this study only emphases only on large capitalized firm using the current, rather than the historical data for only five years. This study falls under the assumption that Islamic firms tend to stay Islamic through out periods of time. Potential extensions to this study should address these issues as this might draw alternative results.

5.4 Future Implications

Future researcher can apply the same model in other regions of different Islamic or non- Islamic countries and their financial sector and non-financial sector. Moreover, this study is adopted from Pakistan as particularly single country, so there can be a research through collecting data from other two or three countries to conduct a comparative analysis. In this research work have been conducted a study on some corporate governance mechanism as its determinants, so in future, researcher can adopt the other corporate governance mechanism like shareholders, auditors, accountability, transparency and fairness as its determining tools.

In further research work, one can use shariah compliant status as a moderator but in furthermore researcher can take return on assets and return on equity as moderators. The corporate governance index in this model has been used as a dependent variable so future researcher can take voluntary disclosures,financial distress, firm profitability and risk management as dependent variable in the same model. In this research work has been taken out the sample of 5 years of data so in future researcher can take more years of data for the fairness of study findings.

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