The Impact of Islamic Governance Mechanisms on Corporate Governance Compliance and Disclosure

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Abstract

This study aims to examine the impact of Islamic Governance Mechanisms (IGM) on the magnitude of Corporate Governance (CG) compliance and disclosures. Moreover, impact of several ownerships and CG structures have also been examined on the level of CG compliance and disclosures. This study aims to specifically construct an index by utilizing 160 Pakistani listed firms over the period of eleven years. Multivariate regressions are carried out to analyze the impact of IGM on CG disclosure. The study is largely robust to endogeneities, alternative measures, fixed effect and to other firm level characteristics. The findings of the study indicate that higher level of commitment headed for incorporation of IGM in the day to day operations via greater IGM disclosure index rating engross in higher level of CG disclosure as compared to those which do not imply this. Furthermore, it is found that presence of audit firm size, audit committee, government ownership, institutional ownership and board size show a positive association with extent of CG compliance and disclosures. Block ownership depicted a negative nexus with CG compliance and disclosure. This research has wide ranging real-world implications for upcoming researchers. Empirical demonstration shows that the companies which adopt IGM willingly are probably fairer regarding their CG practices hence, providing with unique insights of IGM and CG disclosure. To the extent of researcher's knowledge, it is primary attempt in Pakistani CG facet to scrutinize the influence of IGM on CG compliance and disclosure. The evidences of traditional CG and ownership structures with CG compliance and disclosure provided by the empirical analysis of the study are distinct and explicit.

Keywords: Compliance and disclosure, Corporate Governance, CG structures, Islamic Governance Mechanisms, Ownership structures.

Introduction

The crash of main public corporations such as Barings bank, Enron and WorldCom in the successful economies such as UK and US in the 1990s, 2000s, which were initially credited for weaken corporate governance practices generally enlightened the requisite for better CG practices

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(Aguilera, Desender, Bednar, & Lee, 2015; Mallin & Ow-Yong, 2012). Worldwide interest in CG was further increased by the 1997/1998 Asian economic issues, which exhibit that macroeconomics problems should be aggravated by the structured CG failures in the progressive countries. Accordingly, CG codes and policy improvements have been seeking in a marked number of countries. Such improvements look to increase the style in which public firms are regulating by uplifting substantial board accountability, regulations, legitimacy, freedom, responsibility and transparency (Samaha, Dahawy, Hussainey, & Stapleton, 2012). Although visible differences in firm's strategies such as CG codes, that have been formulated in most developing countries do not go after the UK methodology of voluntary capitulation policies of 1992 but are also focusing initially on increasing stakeholder associated protections(Al-Bassam, Ntim, Opong, & Downs, 2015; W. M. Albassam, Albassam, Ntim, & Ntim, 2017). The ability of CG codes is to attain good governance rely on the magnitude to which companies are eager to go in for fruitful disclosure. Thus, this study looks for exploring whether Islamic norms can explain discernible differences in the extent of CG disclosures by Pakistani listed firms. Particularly, we aim to determine whether collective commitment to willingly involve Islamic norms into business functions, along with the established ownership structure and CG mechanisms can explain obvious differences in the level of CG disclosure.

The decision to explore the link between Islamic norms and the level of CG disclosure in Pakistan is motivated by the given factors. First and that is related to several Arabian/Asian countries, but distinct from most developed countries is that governance of public corporations is strongly affected by Islamic norms that emerge from Islamic rules (Elghuweel, Ntim, Opong, & Avison, 2017; Judge, 2010). Islamic rules (Shari'ah) is comprehensive and unified in direction, providing absolute instructions for guiding Muslims in every credible aspect of daily life that covers all sides of lives including business, law, economics, politics, religion society and many more(Velayutham, 2014). Consequently, exchange by laws or trade, dealing (commerce) financial aspects and the business involving monetary transactions are presume mainly to depict Islamic rules. For instance, Islamic rules forbid the demand of interest (riba) on credits/debits, distinctively demanding banks to indulge in "mudarbah" and "musharkah" types of Islamic financial methods that require the formulation of Shari'ah counsel guiding boards(Beck, Demirgüç-Kunt, & Merrouche, 2013). The governance incrimination is that the discreteness of the Islamic financing rule generates distinctive CG challenges, and hence demands for their separate inspection. On theoretical point of view of "Mudarbah" is to enhance unfavorable assortment, virtuous risk, and screening value of debtors but it also tends to aggravate agency problems by enhancing options for managers to confiscate the assets of the company(Mollah & Zaman, 2015).

Second, comparative originality of the Pakistani circumstances and the nature of the Pakistani code, there is a crunch of factual studies that are investigating the code's success in the betterment of CG levels in Pakistani public firms. Although there are limited range of prior studies on Pakistan have to be absolutely acknowledged. A cluster of ancient studies have examined how the characteristics that are specific to firms affect CG disclosure in Pakistan (Javeed, Mokhtar, bin Lebai Othman, & Khan, 2017; M. A. Khan & Tariq, 2017; M. Y. Khan, Al Bassam, Khan, & Javeed, 2017; M. Y. Khan, Albassam, & Elghuweel, 2014; Shah, 2016)and reported that mainly the larger firms have share their information in the final reports as compared to smaller counterparts. Another group of prior Pakistani studies (Arslan, Zaman, Malik, & Mehmood, 2014; Mirza & Javed, 2013; Yasser, Entebang, & Mansor, 2015)have investigated the link between CG structures and financial productions with their conclusions drawing that on average, better governed corporations usually deliver the greater performance than the poor governed companies. Another group of these studies(Javid & Iqbal, 2008; Mirza & Javed, 2013) have also investigated the CG practices. Their conclusions propose that board independence, audit committee members, transparency, leverage and ROA profitability are the key items for measuring the CG disclosure in Pakistani listed corporations.

Therefore, this study differentiate from the previous literature(Ghani & Ashraf, 2005; Javaid Lone et al., 2016; Javid & Iqbal, 2008)in several ways. Initially our research examines how the Islamic governance mechanisms operate in the dimensions to which Pakistani listed firms abide by and disclose CG provisions contained in 2002 Pakistani code. This research mainly includes: 1) observe the parameters of common CG disclosures and 2) investigate the influence of CG procedures on efficiency which are targeting differently. Apart from distinctions in target, the samples used by the studies are apparently small in contrast to the size of recent sample, as well as look into a limited number of CG provisions. Possibly, this damage the concept of their research for Pakistani listed firms. Lastly our study to look into a bulky set of CG disclosures using the established CG index by(Ghani & Ashraf, 2005; Javaid Lone et al., 2016; Javid & Iqbal, 2008). Over a very recent and for longer duration (11 years of period) in contrast with the durations researched by existing studies and hence, the recent investigation can also be rendered as an elongation to prior studies.

By giving this scenario, the main goal of this paper is to observe the dimensions to which extent the corporate sector is devoted to incorporating Islamic governance mechanisms into their functions, as well as ownership structure and CG structures affect the standard of information that Pakistani listed firms disclose on their CG practices. First and the best according to researcher's information, we deliver for the first-time evidence on the extent and the level to which Islamic norms are voluntarily clutch and absorb into corporate functions by building an Islamic disclosure index that include 10 Islamic norms by utilizing a sample of 160 Pakistani listed corporations from 2004-2014. Secondly, we have given for the very first-time evidence on the level to which Islamic norms operate the degree of disclosure of good CG practices among Pakistani listed corporations. Third, we also give the evidence about the effect of ownership structures and CG provisions on the extent CG disclosure. This can enhance our understanding of the focused reasons that affect the level of CG compliance and disclosure in a developing country in which various stakeholders/shareholders such as the Pakistani government, the Pakistani Capital market and the Pakistan stock exchange take a keen interest in CG and stakeholder issues.

This study has two main outcomes. Initially, our analysis on affecting CG compliance and disclosure proposes that Islamic governance mechanisms are usually important in explaining variations in CG disclosures. Specifically, we extract that firms that show greater interest toward involving Islamic values into their functions through high Islamic norms get more in CG disclosure than those that are not. Further, we concluded that audit firm size, board size, government ownership and institutional ownership are affirmatively linked with the extent of CG disclosure, whilst block ownership is passively linked with the extent of CG disclosure. Our research is controlling and robust to the fixed effects, corporate level characteristics, alternative measure and endogeneities.

Literature Review

Current CG examine focuses mainly on: (i) CG disclosures(Abdelsalam & Street, 2007; Eng & Mak, 2003; Haniffa & Cooke, 2002; Ntim, 2012) ;(ii) disclosures of Corporate Social Responsibilities (Ntim & Soobaroyen, 2013; Soobaroyen & Ntim, 2013); (iii) firm financial performance(Ntim, 2012, 2015; Ntim, Opong, & Danbolt, 2015); disclosure of risk (iv) (Ntim, 2015); (v) Voluntary disclosure of CG(B. A. Albassam, 2015; Collett & Hrasky, 2005; Elghuweel et al., 2017). However, research analyzing the impact of Islamic values on the volume of CG disclosure are rare and therefore, offer opportunities to contribute to the extant literature through investigating the impact of Islamic values at the level of CG disclosure.

Subsequently, we draw from those strands surviving writing and the Pakistani CG changes to build our basic speculation identifying with the impact of Islamic esteems on intentional disclosure of CG (Ahmed Sheikh & Wang, 2012; Sheikh & Qureshi, 2017).Particularly the investigation looks at the degree to which Islamic esteems are deliberately grasped and joined into business operations, as measured by a wide Islamic esteems revelation file influence deliberate exposure of CG disclosures. We also examine the effect of traditional ownership (block ownership, government ownership and institutional ownership) and CG (audit firm size, board size and the presence of a CG committee) on the extent of CG disclosure. However, as these ownership structures and CG variables have been examined in the prior literature (B. A. Albassam, 2015; Collett & Hrasky, 2005; Elghuweel et al., 2017; Tsamenyi, Enninful-Adu, & Onumah, 2007).

Islamic governance mechanisms, CG disclosure and transparency

As beforehand noted, 'Sharia' is comprehensive in introduction giving direction to each part of rehearsing Muslims everyday life exercises(Abu-Tapanjeh, 2009; W. M. Albassam et al., 2017; Vinnicombe, 2010). Consequently, and essentially, 'Sharia' recognizes that rehearsing Muslims will unavoidably need to participate in mainstream/material exchanges, yet determines that such dealings must be guided by religious/ROA/Islamic estimations of responsibility, value, decency, ethical quality, obligation and social equity (Kamla, 2009; Maali & Napier, 2010). With regards to present day vast 'Islamic open organizations', a noteworthy method for guaranteeing that business exchanges are 'Sharia' agreeable are: (I) giving autonomous reports to investors with regards to the consistence of administration with Islamic business standards/qualities; and (ii) evaluating corporate records to confirm exact installments of the Islamic religious duty (zakat) and utilizing Islamic credits (Lewis, 2005). In any case, and to be compelling in observing and prompting administrators, the organizations must portray responsibility, autonomy, classifications, capability, consistency and disclosure. In this unique situation and despite the fact that in Islam, responsibility, for instance, is first and chief to God (Allah), it in any case expressly expects companies to influence valid, to reasonable, convenient and straightforward disclosure of money related certainties and data to investors, as well as to different partners (Abu-Tapanjeh, 2009).

Along these lines, 'Islamic partnerships' are apparently subject to more noteworthy observing and investigation than their non-Islamic counterparts. Along these lines, and from an organization hypothetical viewpoint, companies that deliberately grasp and join Islamic esteems into business operations flag their goal to focus on great administration gauges. One path by which 'Islamic partnerships' can show their great administration qualities is to participate in more noteworthy straightforwardness and disclosure concerning their CG rehearses. Observational examinations that look at the degree to which Islamic esteems are fused into business operations and willful disclosure of CG rehearses are uncommon, and accordingly give chances to add to the writing. The main special case is an investigation by (Abu-Tapanjeh, 2009; Grais & Pellegrini, 2006; Ntim & Soobaroyen, 2013; Rahman, 1998; Vinnicombe, 2010).

Utilizing 15 Islamic banks in Bahrain from 2004 to 2007 the level of consistence with bookkeeping and administration principles issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) has been gauged. It is reported that consistence with AAOIFI's exposure rules regarding SSBs and 'murabahah' contracts are high, however low concerning AAOIFI's disclosure necessities on the 'zakah' and 'mudarabah' contracts. With reference to the Pakistani setting and given that the choice to fuse Islamic standards into business operations is a willful one, our desire is that 'Islamic open enterprises' will probably focus on great administration, incorporating participating in expanded disclosure of their CG rehearses. Following (W. M. Albassam et al., 2017; Elghuweel et al., 2017) and our principle speculation that we test in this investigation is:

H_1: There is a statistically significant and positive association between Islamic Governance Index and the level of compliance and disclosure of good CG practice.

Methodology

As it has been discussed previously, this study wants to explore the impact of Islamic governance mechanisms on the level of CG compliance and disclosure. The index is made by utilizing different CG provisions. In particular, to look at administer theory, we utilize a twofold Pakistani CG revelation archive, as our fundamental ward variable. The record has been delivered to gage the four key exposure territories contained in the 2002 Pakistani CG code. Specifically, the once-over is confined into areas, namely: (i) the board of directors (BOD); (ii) internal auditing and committees (IAC); (iii) shareholders right (SHR); (iv) transparency and disclosure (TAD); and (v) Internal Control, External Auditor and Risk Management (ICRM).

Second, what's more, to test our focal hypothesis, our control free factor is a twofold Islamic esteems presentation record, containing 10 Islamic respects covering expansive extents of Islamic business and money related rules. The Islamic Governance Index (IGI) tries to quantify how much Pakistani recorded firms obstinately and unequivocally join Islamic governance mechanisms into their business operations. These blueprints were picked in context of far reaching examination of the earlier creating that looks into CG from an Islamic point of view(Abu-Tapanjeh, 2009; Grais & Pellegrini, 2006; Ntim & Soobaroyen, 2013; Rahman, 1998)and the yearly reports of the investigated Pakistani recorded firms.

Third, and since a couple of examinations suggest that ownership and board structure variables can impact disclosure(Haniffa & Cooke, 2002), we assemble data on proprietorship structure, tallying Block Ownership (BOWN), government ownership (GOWN), and institutional proprietorship (IOWN) besides, board/CG properties, including size of the board (BSIZ), audit firm size (ASIZ), and the proximity of a CG Committee (CGCO) and consolidate into our models as control factors. Finally, and to control for potential firm-level disposed of components slant number of firms' qualities were included as control factors. These consolidate risk (Beta), return on assets (ROA), bargains advancement (SGRO), Leverage (LEV), firm size (FSIZ), capital utilization (CXP), benefit portion status (DPS), industry Dummy (IDM), and year Dummy (YDM). These elements are picked, particularly, in light of the way that different theoretical and trial examinations suggest that these variables can impact the level of purposeful CG disclosure (W. M. Albassam et al., 2017; Botosan, 1997; Ntim, 2012).

Empirical Results

Data

The study mainly focused on Pakistani firms those are listed in the stock market. After excluding corporations that had been suspended, merged, and newly listed with no missing data, the complete data needed is obtained for a total of 160 corporations for eleven firm-years (1760 firm years' observations). These firms follow 9 different industries; includes Automobile and engineering 19 firms, Cement 24 firms, Chemical 18 firms, Electricity and Electronics 9 firms, Food and Beverages 19 firms, General industrial 22 firms, Oil and gas 13 firms, Pharmaceutical 7 firms and Textile 29 firms. The firms' annual reports and firm stock information must be available for all eleven years. This helps to overcome any problems that may be caused by unobserved firm-level heterogeneity

The collecting data from the two main sources:

(i) The firms' annual reports to obtain the voluntary disclosure, Islamic values and ownership structure.

(ii) The firms' financial statements to collect financial data, particularly financial and accounting information. The sample used data from 2004 to 2014 because the following reasons. First, as Pakistani code of CG has been issued in 2002, firms started following it in 2003 and data was available from 2004 for a reasonable sample. Further, the latest data was available for 2014 at the time of data collection. This sample helps to fulfill the requirement of a balanced panel dataset in which both time series and cross-sectional observations are included to minimize multi-collinearity and provide more degrees of freedom among the variables.

Descriptive Statistics

The summary descriptive statistics relating to the level of compliance with the PCGI and IGI is being presented in Table 1. Primarily, the analyses propose that there exists a significant amount of dispersion in indices. The PCGI (IGI) ranges from a minimum of 1.45% (9.11%) to a maximum of 91.13% (85.33%) with the average corporation compliance of (29.01%). Furthermore, following the footsteps of previous studies the outcomes being presented in Table 1 advocate that PCGI (IGI) provisions commonly progresses over time, with the median aggregate compliance levels increasing from 16.64% (23.65%) in 2004 to 67.29% (34.40%) in 2014.

Table 1: Summary of descriptive statistics

	All	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Level of compliance with Islamic Governance Disclosure												
Mean	28.11	23.62	24.55	26.77	27.66	30.60	30.76	32.13	34.33	33.55	34.40	25.57
Median	26.55	23.65	22.37	22.38	22.37	26.62	26.61	30.88	27.78	28.33	23.45	34.40
STD	12.87	7.65	9.54	12.98	13.37	14.25	11.30	12.22	12.32	23.55	13.65	14.66
Min	9.11	9.12	14.66	14.55	14.66	17.26	17.25	17.24	17.00	15.66	16.45	14.55
Max	85.33	55.44	64.66	80.81	85.33	85.44	80.23	86.34	81.22	82.34	84.55	87.88

In parallel, the descriptive analysis for explanatory and control variables is shown in Table 2. The distribution of the variables under study exhibits extensive variation. For instance, BSIZ ranges from a minimum of 5 to a maximum of 11 with a median of 8 board members. It is in line with the findings of past studies(W. M. Albassam et al., 2017; Elghuweel et al., 2017). BOWN is between 5.00% and 84.22% with a mean of 32.89%. The ASIZ, CGCO, GOWN and IOWN, as well as the control variables in Table 2 suggest substantial variation in our sample, and thus reducing any possibilities of sample selection bias.

Table 2: Descriptive statistics for explanatory variables

Variables	Mean	Median	STD	Min	Max
Other explanatory variables					
ASIZ%	55.90	99.90	51.52	0.00	100.00
BOWN%	32.89	29.11	24.11	5.00	84.22
BSIZ	8.42	8.10	1.61	5.00	11.00
CGCO%	9.90	0.00	30.32	0.00	100.00
GOWN%	13.96	2.15	22.05	0.00	84.66
IOWN%	5.58	0.00	9.95	0.00	40.11
Control Variables					
CXP%	59.22	0.74	155.44	0.00	82.31
DPS%	62.12	100.00	47.00	0.01	100.00
FSIZ	13.02	14.97	2.66	9.43	18.96
LEV%	23.44	8.33	26.90	0.00	85.00
BETA	2.69	1.12	2.86	0.00	14.94
ROA%	7.54	4.57	7.67	-7.99	26.74
SGRO%	14.55	9.33	34.54	-45.16	140.00

ASIZ (audit firm size); BOWN (block ownership); BSIZ (board size); corporate governance committee (CGCO); GOWN (Governmental ownership); IOWN (Institutional ownership); CXP (capital expenditure); DPS (dividend payment status); FSIZ (firm size); LEV (leverage); BETA (risk); ROA (risk on asset); SGRO (sales and growth)

OLS and Multivariate Analysis

In this investigation, the OLS strategy has been utilized to analyze the impact of Islamic incentive on great CG rehearses. Table 3 presents the findings of OLS analysis of the impact of Islamic values, ownership structure and board characteristics on the extent of voluntary disclosure of CG practices. The outcomes of the study recommend that the predictor variables are momentous in amplification of cross sectional variations in voluntary CG disclosures.

Table 3: The Impact of Islamic Governance on CG disclosure

	PCGI- main index		BOD sub-index		IAC sub-index		SHR sub index		TAD sub-index	
I. Variables	**Co-eff**	**p-values**	**Co-eff**	**p-values**	**Co-eff**	**p-values**	**Co-eff**	**P-values**	**Co-Eff**	**P-values**
IGI	0.188	0.000***	0.139	0.000* * *	0.094	0.030 * *	0.228	0.000 * **	0.128	0.000 ***
BOWN	-0.117	0.022 * *	-0.111	0.044 **	-0.106	0.055 *	-0.112	0.723	-0.133	0.044 **
GOWN	0.166	0.000 ***	0.188	0.000 ***	0.144	0.000 ***	0.119	0.010 ***	0.145	0.000***
IOWN	0.225	0.000 ***	0.027	0.554	0.075	0.045*	0.066	0.066*	0.105	0.040 **
BSIZ	0.122	0.015 **	0.114	0.087 *	0.014	0.779	0.111	0.028 **	0.123	0.025 **
ASIZ	0.233	0.000 ***	0.228	0.000 ***	0.126	0.000 ***	0.223	0.000 ***	0.021	0.693
CGCO	0.266	0.000 ***	0.188	0.000 ***	0.155	0.000 ***	0.244	0.000 ***	0.188	0.000 ***
CXP	-0.044	0.188	-0.033	0.299	-0.072	0.066 *	-0.022	0.277	-0.044	0.195
DPS	0.245	0.000 ***	0.134	0.000 ***	0.122	0.000 ***	0.225	0.000 ***	0.135	0.000***
FSIZ	0.387	0.000 ***	0.266	0.000 ***	0.244	0.000 ***	0.238	0.000 ***	0.355	0.000 ***
RISK	-0.116	0.045**	-0.095	0.055 *	-0.087	0.077 *	-0.077	0.099 *	-0.089	0.055 *
LEV	0.177	0.000 ***	0.166	0.000 ***	0.254	0.000 ***	0.177	0.000 ***	0.156	0.000 ***
ROA	-0.028	0.643	-0.012	0.799	-0.006	0.833	-0.004	0.877	-0.007	0.177
SGRO	-0.033	0.255	-0.026	0.266	-0.032	0.332	-0.024	0.442	-0.032	0.334
Inddummies	Included		Included		Included		Included		Included	
Year dummies	Included		Included		Included		Included		Included	
Constant	-0.699	0.000 ***	-0.577	0.000 ***	-0.466	0.000 ***	-0.430	0.000 ***	-0.166	0.000 ***
D-W-stat	1.952		1.744		1.688		1.655		1.766	
F-value		16.822 ***		14.699***		13.888 ***		12.882 ***		15.399 ***
Adjusted R	0.499		0.455		0.466		0.430		0.477	
No of obs		1760		1760		1760		1760		1760

PCGI (Pakistani corporate governance index); BDIR (board of directors); DTRA (disclosure and transparency); INCR (internal control and risk management); SHAR (rights of shareholders and general assembly); ASIZ (audit firm size); BOWN (block ownership); BSIZ (board size); corporate governance committee (CGCO); GOWN (Governmental ownership); IOWN (Institutional ownership); CXP (capital expenditure); DPS (dividend payment status); FSIZ (firm size); LEV (leverage); BETA (risk); ROA (risk on asset); SGRO (sales and growth).

Table 3 proposes that the coefficients on IGI, have significantly positive relation with PCGI, suggesting that Pakistani enterprises with high IGI, for the most part make fundamentally more deliberate CG divulgences. The positive connotation is consistent with the theoretical notions arising from literature that firms indulging in Islamic values subject themselves to monitoring and scrutiny on a higher level (W. M. Albassam et al., 2017; Grais & Pellegrini, 2006). Realistically, the firms which incorporate Islamic values in their operations are not only autonomous and competent but they will make fair and transparent disclosure of information not only to shareholders but also to the stakeholders(Abu-Tapanjeh, 2009; Lewis, 2005; Rahman, 1998; Vinnicombe, 2010). Recognizably, our outcomes additionally offer observational bolster for our primary theory (H1) and subsequently give new experimental bits of knowledge on the connection between Islamic values and the degree of willful revelation with specific concentrate on the exposure of CG hones.

Second, to investigate the connection between each of the willful CG revelation mechanism, the equation under investigation is re-evaluated by substituting PCGI with the privilege of the board of directors (BOD); internal auditing and committees (IAC); shareholders right (SHR); and transparency and disclosure (TAD). The results of the sub-indices are accounted for in the Columns 3 to 8 of Table 3, separately, with the outcomes remaining basically as those revealed for the fundamental PCGI. Third and albeit regarded as control factors (not the fundamental concentration of this examination), the discoveries from Table 3 propose that review board size, CG committees, audit firm size, institutional ownership and government ownership are decidedly connected with the CG compliance and disclosure, while CG disclosure is negatively associated with block, and in this manner expanding the findings of earlier investigations(Al-Bassam et al., 2015; Al-Moataz & Hussainey, 2012; Elghuweel et al., 2017; Hussainey & Al-Najjar, 2012). At last, the aftereffects of the control factors are likewise introduced in the Table 3. For example, the LEV, DPS and FSIZ are significantly and positively associated with the PCGI, while the BETA is negatively associated with the PCGI. Contrarily, the SGRO, CXP and ROA are not having any significant impact.

Robustness

To check that findings are robust, several analyses was carried out by the researcher. Contrary to the binary index, a new equally weighted index was constructed by the researcher and a weight of 20% was allocated to each category of the PCGI. Although minor differences exist in the coefficients, but the results are generally similar.

Table 4: Robustness analyses

	Weighted PCGI		Fixed effects	
Independent variable	**Co-eff**	**p-values**	**Co-eff**	**p-values**
Islamic values disclosure index				
IGI	0.122	0.000***	0.239	0.000 ***
Control variables: ownership structure variables				
BOWN	-0.087	0.060 *	-0.088	0.055*
GOWN	0.157	0.000 ***	0.167	0.000 * **
IOWN	0.225	0.035 **	0.133	0.028*
Control variables: corporate governance variables				
BSIZ	0.137	0.000 * **	0.143	0.000 ***
ASIZ	0.220	0.000 ***	0.238	0.000 ***
CGCO	0.188	0.000***	0.198	0.000***
Firm specific characteristics				
CXP	-0.044	0.188	-0.033	0.070 *
DPS	0.245	0.000 ***	0.218	0.000 ***
FSIZ	0.255	0.000 ***	0.266	0.000 ***
BETA	-0.134	0.045**	-0.133	0.000 ***
LEV	0.163	0.000 ***	0.168	0.000 ***
ROA	-0.013	0.680	-0.008	0.711
SGRO	-0.006	0.775	-0.022	0.734
Constant	-0.877	0.000 ***	-0.933	0.000 ***
Industry and year dummies		Included		Included
Durbin-Watson statistics		1.880		1.867
F-value		14.779 ***		18.699***
Adjusted R squared		0.577		0.699
No of observations		1760		1760

Conclusion

Pakistan has trailed corporate governance reforms in 2002.This study examines the impact of conforming to the Islamic values by the Pakistani firms. Precisely, the study probed that either the willing commitment of the public firms to the Islamic values can lead towards the betterment in corporate disclosure. The major focus is on compliance and disclosure of CG practices. Binary Islamic values disclosure index is taken as an independent variable. Pakistani CG disclosure index is taken as a major dependent variable. 160 Pakistani listed firms are considered for analysis over a period of 11 years containing 1760 observations. It is revealed through analysis that the firms which engage in incorporation of Islamic values into their corporate operations are involved is more CG disclosure and vice versa. Furthermore, the finding shows that the institutional ownership, government ownership, board size, CG committees and audit firm size have a positive association with CG compliance and disclosure. However, CG compliance and disclosure was found to be negatively associated with block ownership. The study has a vivid practical contribution as it provided the insights regarding the incorporation of Islamic values in the operations of the firms and it impact on the transparent disclosure.

Implications and future research avenue

This study has some very important theoretical and practical implications which can enhance our understanding of the focused reasons that affect the level of CG compliance and disclosure in a developing country in which various stakeholders/shareholders such as the Pakistani government; the Pakistani Capital market and the Pakistan stock exchange take a keen interest in CG and stakeholder issues. This study also provides useful insights for future research and for the overall interest of society for transparent and meaningful CG disclosures. The finding of the study is useful for all governmental and professional bodies that incorporations of Islamic Governance mechanisms can improve CG compliance and disclosures while block ownership may reduce the disclosure of such useful information. This research can be further extended by using a larger data set, by comparing financial and non-financial firms and by using recent data sets. A qualitative or mix study may also be conducted to further investigate the usefulness of disclosure of Islamic Governance Mechanisms.

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