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The Nexus Between Islamic Label and Firm Value: Evidence From Cross Country Panel Data

Naeem ULLAH[1], Abdul WAHEED[2], Nida AMAN[3]

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Abstract

This research uses a panel data set of selected developed and emerging economies to investigate the relationship between firm value and the Islamic label. A low-debt company is a proxy for excellent governance, and good governance has a significant positive impact on a company's valuation. We can claim that the Islamic label may also be a proxy for excellent governance and will significantly impact a company's economic value because it reflects low debt Sharia-compliant companies. To explore this relationship, cross-country data from non-financial enterprises in Pakistan, the United States, Malaysia, and Indonesia was acquired from 2010 to 2015. The study's findings indicate that the Islamic label has a positive significant impact on the firm's worth in the whole sample, including all countries. With the exception of the United States, we have also collected the same information at the country level. We also discovered that the corporate governance index at the firm level has a positive significant impact on firm value. The findings show that the Islamic label reflects good governance and hence can be used as a proxy for good governance. The analysis differentiates between Islamic labeled and conventional enterprises in developed and emerging nations, adding to our understanding of who contributes to enhanced corporate financial performance.

Keywords: Sharia Compliant, Corporate Governance, Non-Financial, Malaysia

JEL Classification Code: I18, I28, J11, H51, H52

1. Introduction

According to Nenova (2003) and Dyck and Zingales (2004), controlling owners in companies with inadequate governance are likely to benefit the most from minority shareholder manipulation. As a result, agency issues have a negative impact on a company's value. Effective company governance will reduce it by a factor of two. For starters, it can reassure shareholders, according to La Porta et al. (2002), that cash flows will not be misappropriated and will be transferred to them in the form of dividends and interest payments. Second, according to Shleifer and Vishney (1997), good management lowers shareholders' monitoring expenses, resulting in cheaper capital costs for a business. Corporate governance, however, is disputed, as evidenced by the findings of Chhaochharia and Grinstein (2007) and Bruno and Claessens (2010), because the higher monitoring costs associated with excellent corporate governance can outweigh the benefits of corporate governance. Furthermore, high corporate governance organizations failed to defend shareholders' interests during the US subprime lending crisis, raising serious issues about corporate governance's efficacy. As a result, an alternative metric for good governance must be developed.

To shift the agency's burden from managers to shareholders, Arping and Sautner (2010) argued that the debt should penalize managers so that they do not misappropriate cash/funds. Furthermore, according to Arping and Sautner (2010), good governance will help the Agency solve its difficulties and remove its debt. However, according to Jiraporn et al. (2012), the governance score and debt have an inverse relationship. Furthermore, debt is small in companies with effective governance and vice versa. As a result, if debt and corporate governance are linked, Islamic enterprises with low debt levels may imply strong governance. We

[1]First Author. Foundation University Islamabad, Pakistan.
[2]Corresponding Author. Assistant Professor, Faculty of Management Sciences, Foundation University Islamabad, Pakistan [Postal Address: New Lalazar, Rawalpindi, Punjab, Pakistan]
Email: dr.abdulwaheed37@gmail.com; abdulwaheed@fui.edu.pk
[3]Bharia University Islamabad, Pakistan.

might also argue that Islamic corporate finance principles (Islamic Label Firms) will substitute for good governance (Hayat & Hassan, 2017).

According to prior research on corporate governance, strong governance increases the value of a company (Bebchuk et al., 2009; Core et al., 2006; Gompers et al., 2003; Klapper & Love, 2004; Setyahadi & Narsa, 2020). According to Amman et al. (2011), excellent governance has a positive impact on business value. They concluded that excellent governance adds significantly more value than it costs. They also stated that their findings for an alternative corporate governance metric are reliable. As a result, we built on this to see if an Islamic label (Sharia Compliance certification) can be used to imitate good governance. If it does, it will be considered an alternative proxy for effective governance.

As a result, this study has two objectives. First, using cross-country data, study the influence of Islamic labels and corporate governance on business value. Second, determine whether Islamic Label results are comparable to excellent governance results. Second, to present cross-national evidence to determine whether the Islamic label may be used as a substitute for good governance. The study will contribute to the body of knowledge on agency conflict by claiming that Islamic labels, like good governance, can help to reduce agency conflict. Furthermore, according to optimistic projections, the Islamic financial industry is valued at 2.2 trillion dollars (Hayat & Hassan, 2017) and will reach 3 trillion dollars in 2020 (Pakistan Observer, 2017). In the case of non-financial enterprises, there is little or no research on the Islamic Label and value nexus. This study will help managers of Islamic firms to provide empirical proof to their investors that Islamic labels will result in a better valuation of the firm.

2. Literature Review and Hypotheses

The agency's dilemma, which is eased by excellent governance, has a two-fold impact on the firm's value. To begin with, shareholders in well-governed companies do not fear cash misappropriation and have faith that money would be returned to them in the form of dividends and interest payments (La Porta et al. 2002). Second, good governance lowers the cost of monitoring by the company's shareholders, lowering the company's net capital cost (Rahman & Khatun, 2017; Rehman et al., 2021; Shliefer & Vishny, 1997; Setyahadi & Narsa, 2020; Waheed & Malik, 2019). However, some research suggests that the costs of good governance outweigh the benefits (Bruno & Claessens, 2010, Chhaochharia & Grinstein, 2007).

There is also strong evidence in the literature that good corporate governance has a positive effect on the firm's value (Gompers et al., 2003; Yermack, 1996). Further research in cross-national settings has found that excellent governance has a beneficial effect on firm valuation. (Balasubramaniam et al., 2009; Muhammad et al., 2016; Beiner et al., 2006; Black et al., 2006). Amman et al. (2011) examined the impact of firm-specific corporate governance indicators on firm value in a cross-country study. They found that several corporate governance proxies have a significant positive impact on firm economic value. They also concluded that the benefits of effective governance outweigh the costs. They believed that companies with bad management suffer a significant drop in value. Moreover, they recommended a thorough study of alternative approaches to corporate governance. The following hypothesis was raised by this and previous literature;

H1: *Corporate governance has a significant positive effect on firm value.*

1. Profit is the logical and universal goal of all businesses (Hassan, 2008, Ali et al., 2013). A corporation's profit-making tactics are not prohibited by Islam. However, the primary goal is to make a profit (profit moderation), not to make abnormal profits at the expense of consumers and society. "Do not eat up your property amongst yourselves in vanities; rather, let there be mutual goodwill trade among you" (An-Nisa: 29). For a corporation to be considered Islamic, it must meet certain requirements. These standards may vary per country (Derigs & Marzban, 2008), but the following core elements stay the same: The organization must receive less than 5% of its profits from the non-ethical organization.
2. Debt to the market value of equity should be less than 33 percent (average of 24 months).
3. Accounts receivables to the market value of equity (average 24 months) shall be less than 49%.
4. Cash to the market value of equity (average 24 months) must be below 33%.

Companies that have been identified as sharia-compliant by Sharia certification authorities would be referred to as "Islamic Label" companies, based on the above discussion. This moniker denotes that these businesses follow sharia law when it comes to corporate finance. This definition is based on Hayat and Hassan's research (2017). Using the Gompers et al. (2003) index, John and Litov (2009) discovered that well-managed enterprises are not in debt, whereas poorly-managed organizations are. Jiraporn et al. (2012) discovered that highly leveraged organizations had poor corporate governance, and vice versa. They also thought that there is an inverse relationship between debt and governance.

Recent overall evidence shows that debt is an alternative proxy to corporate governance. This is something on which we build, and because Islamic companies show lower debts, Islamic labels can also be good governance. This allows us to empirically test;

H2: *Islamic label has a significant positive effect on corporate value.*

3. Methodology

3.1. Data and Sample

To collect numbers for the different variables in the study, we analyzed annual reports from non-financial enterprises in Pakistan. Data from the Thomson Reuters database has been used to obtain numbers for non-financial companies in the ASEAN region. For non-financial enterprises in the United States, data from the COMPUSTAT and Thomson Reuters databases were used. Only those companies in Pakistan that lack an understanding of variables during the analysis are removed. In addition, for international countries, we omitted those companies that were not included in the corresponding indexes during the period of our study, which was from 2011 to 2015.

This was crucial since we only intended to include organizations that were actual sector leaders in our sample. We only chose nations in the ASEAN region that had a Sharia Index and official Sharia Certification Authorities. Only Malaysia and Indonesia have active Sharia Indices and governmental Sharia Advisory Boards. As a result of these limits, we were able to collect samples from 231 Pakistani businesses, 53 of which were Islamic label businesses. We ended up in Indonesia with 38 companies, 17 of which were Islamic. In Malaysia, we found 38 enterprises, 17 of which had an Islamic label, but in the United States, 128 companies out of 304 had an Islamic label.

It was a huge comfort to discover that our sample included all of these countries' non-financial industrial sectors, indicating that our sample is sufficiently representative of the population. Our forecasting period runs from 2011 to 2015. To account for lead-lag, the year 2010 is also included. Because the Pakistani economy and the global economy have gone through various crises and recovery periods, our estimating timeframe is robust. Furthermore, the official Islamic index of the Bursa Efek Indonesia (Indonesian Stock Exchange) began in 2011. Our estimating period is thus from 2011 to 2015 for homogeneity and robustness. This timeframe has the additional advantage of covering both the European banking crisis and the post-crisis recovery period.

3.2. Identification of Sharia Compliant Firms

Because sharia identification standards varied by country, our Islamic identification criteria were determined by the country being addressed. In Pakistan, Sharia-compliant is limited to firms that are part of the PSE KMI All Share Index from 2011 to 2015. Companies that are sharia compliant in the expected time frame receive a '1,' whereas traditional companies receive a '0.' As a result, we have a time-invariant dummy of the Islamic label of enterprises that elected to remain Islamic during our estimation period. This is similar to Hayat and Hassan (2017).

For the purposes of this study, companies that were deemed Sharia-compliant by the Malaysia Sharia Advisory Board of the Malaysia Security Committee (SC) were classified as Bursa Malaysia Sharia Compliant companies. Companies that have been categorized as sharia-compliant by Indonesia's financial services regulator, OJX Indonesia, which is in charge of supervising and managing the country's financial services market, have been labeled as sharia-compliant. S&P 500 Sharia is a stock index that comprises sharia-compliant stocks in the United States. The list of these companies is not made public by S&P. We got a list of sharia-compliant enterprises from Mr. Wajid Raza, co-author of Broudt et al. (2017), Arslan-Ayaydin et al. (2018), and Raza and Ashraf (2019), respectively. Furthermore, we double-checked the firms against the original S&P Sharia firms supplied to us by SNL Financials and verified that they were correct.

3.3. Corporate Governance Measurement

We used a Corporate Governance Index to quantify corporate governance (CG Index). The CG Index is an aggregate index of corporate governance aspects relevant to firms. The index divides corporate governance traits into five quintiles according to the technique used by Aggarwal et al. (2011), Amman et al. (2011), and Waheed et al. (2021). The ordinal scores are then added for each company year observation, and the index is calculated using the formula below.

$$\text{CG Index}_{i,t} = \left\{ \frac{\text{sum of quintiles} - \text{Min}}{\text{Range}} \right\}$$

Where CG Index is the corporate governance index, the sum of quintiles is the year-by-year addition of quintiles of corporate governance attributes, Min is the smallest value of sum in a single year, and range is determined as (Min–Max), with Max being the maximum value of sum in a single year. The range of final index values is 0 to 1. Good Corporate Governance is indicated by a higher index score and vice

versa. The attributes of corporate governance at the firm level are based on Shah (2009). These attributes were used for two reasons. First, the author discovered robust results in both the developed (the United States) and developing countries (Pakistan) employing these attributes. Second, it is cost-effective since these factors appear in nearly every study that uses firm-level corporate governance qualities to determine firm-level governance. The following are these attributes:

Ownership Structure	OS	Shares held by the board of directors/ Total no. of shares outstanding,
Ownership Concentration	OC	Shares owned by top-10 shareholders/ Total no. of Shares
Institutional Ownership	IO	Shares held by institutional owners/ Total No. of Shares
Board Size	BS	Ln. of total No. of Board members.
Board Independence	BI	Non-Executive Directors/ Total No. of Directors in Board
Audit Committee Independence	ACI	Non-Executive directors in Audit committee/ Total No. of Directors in Audit Committee
CEO Duality	CEOD	Whether CEO and Chairman are the same people.

In Indonesian companies, two tiers of boards predominate. We included all members of the supervisory board as independent directors, following the methodology employed in two-stage board studies because the Committee of Commissioners is a director who is not involved in the management of companies. For Indonesia, the board's independence thus refers to the ratio of the total Supervisory Board members to the overall Board members.

3.4. Firm Value under Islamic Label and Corporate Governance

To test out the hypothesis, the current study followed Amman et al. (2011). It used their model to determine the impact of Corporate Governance and Islamic label on the value of the firm. We will test the following two models to test our hypothesis

$$\begin{aligned}\text{Tobin Q}_{i,t} = {} & \alpha_i + \beta_1\text{CG}_{i,t} + \beta_2\text{LnTA}_{i,t} + \beta_3\text{PgSales}_{i,t} \\ & + \beta_4\text{RD/Sales}_{i,t} + \beta_5\text{Cash/Sales}_{i,t} \\ & + \beta_6\text{Capex/Asset}_{i,t} + \beta_7\text{PPE/Sales}_{i,t} \\ & + \beta_8\text{EBIT/Sales}_{i,t} + \beta_9\text{Leverage}_{i,t} \\ & + \text{IndustryEffect} + \text{CountryEffects} \\ & + \text{YearEffect} + \varepsilon_t\end{aligned} \tag{1}$$

$$\begin{aligned}\text{Tobin Q}_{i,t} = {} & \alpha_i + \beta_1\text{Islamic}_{i,t} + \beta_2\text{LnTA}_{i,t} + \beta_3\text{PgSales}_{i,t} \\ & + \beta_4\text{RD/Sales}_{i,t} + \beta_5\text{Cash/Sales}_{i,t} \\ & + \beta_6\text{Capex/Asset}_{i,t} + \beta_7\text{PPE/Sales}_{i,t} \\ & + \beta_8\text{EBIT/Sales}_{i,t} + \beta_9\text{Leverage}_{i,t} \\ & + \text{IndustryEffect} + \text{CountryEffects} \\ & + \text{YearEffect} + \varepsilon_t\end{aligned} \tag{2}$$

Where Tobin's Q is the sum of total assets less the book value of equity plus the market value of equity, divided by total assets, CG is corporate Governance Index, Islamic is a dichotomous variable that takes the value of 1 if the firm adheres to Islamic Corporate Finance Principals and zero otherwise, LNTA denotes the logarithm of total assets, PGSALES denotes the two-year growth of sales, RD/SALES denotes the ratio of expenditures for research and development to sales, CASH/ASSETS denotes the ratio of cash to total assets, CAPEX/ASSETS denotes the ratio of capital expenditures to assets, PPE/SALES denotes the ratio of property, plant, and equipment to sales, EBIT/SALES denotes the ratio of earnings before interest and taxes to sales, LEVERAGE denotes the ratio of total debt to total assets. Industry effect takes the value of 1 if firm belongs to a particular industry and zero; otherwise, Years Effect takes the value of 1 if the firm is present a particular year and zero; otherwise, Country Effect takes the value of 1 if firm belongs to a particular country and zero otherwise.

3.5. Panel Data Regression Model

Since our "Islamic" variable is a time-invariant dummy, we cannot employ a fixed effect panel regression model thus we have employed pooled panel data regression with years, country, and firm fixed effects for all regression equations. All tests are carried out with robust standard errors.

4. Results and Discussion

4.1. Descriptive Statistics

Table 1 shows the descriptive data from the variables considered in the analysis. On panel A of the table, descriptive statistics for conventional firms are accessible, while on panel B, descriptive statistics for Sharia Compliant Companies are available. In the overall sample, we have 1,900 and 1,050 firm years of observation for each component of the study for conventional and Islamic label companies, respectively. This shows that our regression effects are not impacted by insufficient data.

The descriptive figures reveal some interesting commonalities between Islamic and traditional businesses.

Table 1: Descriptive Statistics of Variables in Value Equation

(Panel A: Conventional Firms)				
	Mean	**Standard Deviation**	**Max**	**Min**
TQ	1.6280	0.8740	3.6098	0.7587
CG Index	0.4541	0.1890	1	0
SZ	16.2425	1.4235	18.7002	14.2685
PGS	0.0481	0.1021	0.2633	–0.0717
Cash	0.0789	0.0858	0.2580	0.0044
CAPX	0.0378	0.0427	0.1172	–0.0178
PPE	0.7101	0.7054	2.2808	0.0925
EBT	0.1321	0.0949	0.3117	0.0114
LEV	0.2776	0.1603	0.5158	0.0218
R&D	0.0111	0.0231	0.0715	0
N	1900			
(Panel B: Islamic Firms)				
TQ	1.9309	0.9192	3.6097	0.7587
CG Index	0.4832	0.1974	1	0
SZ	16.4975	1.2806	18.7002	14.2685
PGS	0.0557	0.0942	0.2633	–0.0718
Cash	0.0996	0.0836	0.2580	0.0044
CAPX	0.0426	0.0375	0.1172	–0.0178
PPE	0.6614	0.7312	2.2808	0.0925
EBIT	0.1552	0.0914	0.3117	0.0114
LEV	0.2339	0.1453	0.5158	0.0218
R&D	0.0129	0.0247	0.0715	0
N	1050			

TQ has a higher mean for Islamic enterprises than for conventional firms as a proxy for sense. As a result, Islamic enterprises have a higher economic value than their non-Islamic counterparts. In comparison to conventional companies, Islamic companies have a better average score on the CG Index. This suggests that Islamic businesses are more well-governed than regular businesses. The Islamic branding may have a significant positive impact on the company's evaluation as a proxy for good governance. This interpretation, however, should be approached with caution, as the presence of outliers and differences in measurements between the two groups tends to be inappropriate in arithmetic means. The mean difference is due to outliers in the data or higher observations for conventional companies because conventional firms have 850 firm years of observations more than Islamic label firms.

According to the control variables, Islamic enterprises are not as leveraged (LEV) as their conventional counterparts. Furthermore, Islamic businesses have more cash on hand (Cash) and earnings (EBIT) than their non-Islamic counterparts. This could indicate that Islamic businesses have outperformed their traditional competitors. Furthermore, according to Harford et al. (2008), well-governed businesses store more cash. This could indicate that the Islamic label is a proxy for excellent governance, as these businesses tend to exhibit many of the characteristics of well-run businesses. Furthermore, Islamic enterprises' PPE ratios are lower than conventional firms', indicating that Islamic firms utilize fewer fixed assets than their conventional counterparts.

4.2. Regression Results

The impact of corporate governance and the Islamic label on the economic worth of a company is seen in Table 2. The influence of the Corporate Governance Index is highlighted in Panel A, whereas the impact of the Islamic label on firm value is shown in Panel B. All of the variables in the equation are winsorized between 1% and 99%. All estimates are based on a reliable standard error. The standard errors are shown in parenthesis.

The overall results (Column 2) reveal that the Corporate Governance Index (CG Index) has a positive and substantial coefficient for company value (TQ). These findings are similar to those of Aggarwal et al. (2009) and Amman et al. (2011). Small shareholders benefit more from corporate governance investments than controlling shareholders (Aggarwal et al., 2009). Higher firm valuations result from investments in corporate governance (Amman et al., 2011). For robustness, we calculated the equation at the country level. The results are mixed on a country-by-country basis. The results are mixed on a country-by-country basis. In the case of Pakistan and the United States, the Corporate Governance Index has a positive but small coefficient, while Malaysia and Indonesia have a positive and substantial coefficient. This is due to the fact that our corporate governance index is based on the corporate governance features of individual companies. According to Aggarwal et al. (2009), countries with inadequate investor protection have positive significant coefficients for firm-specific corporate governance variables, whereas countries with high investor protection have insignificant coefficients.

4.3. Impact of Islamic Label on Firm Value

The Islamic label has a positive significant coefficient for company value, as shown in panel B of Table 2. Governance has a strong impact on business value,

Table 2: Regression Results

Panel A	**(All Countries)**	**(Pakistan)**	**(Malaysia)**	**(Indonesia)**	**(USA)**
	TQ	**TQ**	**TQ**	**TQ**	**TQ**
CG Index	0.165**	0.0902	0.329*	0.543**	0.109
	(0.0711)	(0.115)	(0.176)	(0.253)	(0.0845)
SZ	–0.250***	0.0332**	–2.199***	–0.0259	–0.272***
	(0.0263)	(0.0167)	(0.268)	(0.0492)	(0.0157)
PGS	0.785***	0.606***	–0.441	0.956**	0.0778***
	(0.153)	(0.168)	(0.913)	(0.408)	(0.0158)
Cash	0.205***	0.153***	–0.0472	–0.579	0.178***
	(0.0183)	(0.0304)	(0.172)	(0.705)	(0.0225)
CAPX	–0.00532	–0.750*	0.516***	0.0834*	0.176***
	(0.0214)	(0.420)	(0.160)	(0.0444)	(0.0248)
PPE	–0.240***	–0.138***	0.367	–0.509***	–0.359***
	(0.0185)	(0.0307)	(0.277)	(0.0891)	(0.0306)
EBIT	0.0120	0.00416	0.333*	0.123**	0.148***
	(0.0110)	(0.00257)	(0.178)	(0.0528)	(0.0494)
LEV	–0.490***	–0.358***	0.526**	–0.285***	0.0249
	(0.0955)	(0.118)	(0.212)	(0.0578)	(0.139)
R&D	0.218	–	0.218*	0.0619	0.811
	(0.771)	–	(0.116)	(0.0394)	(0.746)
Intercept	2.324***	1.066***	2.607***	2.218*	6.931***
	(0.0609)	(0.257)	(0.597)	(1.195)	(0.275)
N	2950	1155	85	190	1520
R–Sq	38%	16%	89%	65%	47%
Years Effect	Yes	Yes	Yes	Yes	Yes
Industry Effect	No	Yes	Yes	Yes	Yes
Country Effect	Yes	No	No	No	No
Panel B					
Islamic	0.110***	0.0980*	1.280***	0.345***	0.0466
	(0.0288)	(0.0560)	(0.397)	(0.0793)	(0.0344)
SZ	–0.248***	0.00469	–2.013***	–0.0430	–0.269***
	(0.0263)	(0.0142)	(0.239)	(0.0464)	(0.0157)
PGS	0.727***	0.0533	0.0894	0.762*	0.0786***
	(0.153)	(0.0449)	(0.798)	(0.395)	(0.0158)
Cash	0.208***	0.172***	0.00646	0.000611	0.178***
	(0.0185)	(0.0301)	(0.176)	(0.706)	(0.0227)
CAPX	–0.00424	–0.464***	0.521***	0.108**	0.177***
	(0.0219)	(0.125)	(0.158)	(0.0426)	(0.0248)

Table 2: (Continued)

Panel B	(All Countries)	(Pakistan)	(Malaysia)	(Indonesia)	(USA)
	TQ	TQ	TQ	TQ	TQ
PPE	–0.240***	0.000609***	–0.0280	–0.549***	–0.362***
	(0.0185)	(0.000233)	(0.338)	(0.0882)	(0.0309)
EBIT	0.0120	0.00131	0.477**	0.131**	0.149***
	(0.0112)	(0.00187)	(0.203)	(0.0535)	(0.0495)
LEV	–0.454***	–0.402***	0.465**	–0.268***	0.0359
	(0.0957)	(0.133)	(0.182)	(0.0562)	(0.139)
R&D	0.336	–	–0.0597	0.0591*	0.832
	(0.771)	–	(0.151)	(0.0342)	(0.748)
Intercept	2.346***	1.425***	2.209***	2.678**	6.834***
	(0.0526)	(0.233)	(0.589)	(1.138)	(0.270)
N	2950	1155	85	190	1520
R^2	0.385	0.144	0.903	0.672	0.470
Years Effect	Yes	Yes	Yes	Yes	Yes
Industry Effect	No	Yes	Yes	Yes	Yes
Country Effect	Yes	No	No	No	No

Standard errors in parentheses *$p < 0.1$, **$p < 0.05$, ***$p < 0.01$.

according to the preceding result in panel A. As a result, we can see that the Islamic label imitates the characteristics of good governance and can be used as a proxy for good administration. We calculated a value equation with an Islamic label for each country for robustness. The findings show that, with the exception of the United States, the Islamic label has a positive significant impact on the economic value of a company. What is producing this effect is a critical question that has yet to be answered. Neither the low debt nor the large cash balances are to blame. This is a question that should be investigated further. One probable explanation is that strong governance increases the value of a company, and Islamic label companies have higher governance scores. As a result, we can conclude that the Islamic designation can serve as a proxy for excellent governance. Furthermore, Islamic enterprises may be required to manage their resources optimally to maximize their firm value due to Sharia regulations. Good governance is the only way to ensure this. To the best of our knowledge, there is no literature on the relationship between Islamic labels and firm value, thus we may need to probe that question more in future research.

Theoretically, strong governance mitigates agency problems and promotes business value, according to Agency theory. Misappropriation of cash holdings and overinvestment of free cash flow are both prevented by strong governance. As a result, firms invest optimally, resulting in increased firm valuation. Furthermore, excellent governance lowers fund providers' monitoring costs, lowering their cost of capital and increasing firm value. This viewpoint is supported by a significantly positive relationship between corporate governance and Islamic branding.

4.4. Discussion on Control Variables

The results of control variables match those of Aggarwal et al. (2009) and Amman et al. (2011). For firm value, the size coefficient is negative. This demonstrates that companies with more assets have lesser growth prospects, and management is frequently faced with reduced profitability. Company management continues to invest in projects with a negative net present value (NPV) that reduce the market value (Jensen & Meckling, 1986). For the last two years of revenue increase (PGS), our study demonstrates a positive coefficient on company value. This signifies that strong revenue growth boosts a company's economic value. Cash has a beneficial impact on the value of a company. Shareholders tend to leave more money in the hands of managers when there is effective corporate governance (Aggarwal et al., 2009). This demonstrates their belief that funds will be utilized to their benefit by management. As a result, an increase in cash holdings

raises the company's worth. PPE has a detrimental impact on the value of a company. Firms should not create strong governance frameworks for fixed assets because they are rarely mishandled (Aggarwal et al., 2009). Firms, on the other hand, have a tendency to overinvest in PPE, lowering their value. Debt has a direct negative influence on valuation since it requires management to approve members of the financial institution's board of directors. These members make judgments that are in line with the needs of financial institutions, resulting in a reduction in costs.

5. Conclusion and Recommendations

The study demonstrated that Islamic branding has a positive impact on a company's worth. Corporate governance has also had a positive impact on the company's worth. Both have statistically significant coefficients for firm value. These findings helped us in achieving our goal of researching the impact of governance and the Islamic label on firm value. In Malaysia and Indonesia, firm-level corporate governance indexes have significant coefficients, whereas, in the United States and Pakistan, it had no impact on firm value but had a positive coefficient. In all nations save the United States. However, the Islamic label had a positive significant coefficient for company value. These findings suggest that the Islamic label can be used as a proxy for excellent governance because it closely resembles the results of the corporate governance index. Future research could include incorporating CSR into Islamic identification criteria to investigate if an Islamic label can be used as a proxy for good governance. Studies on the influence of the Islamic label on the value of dividends and cash holdings can also be done. For added robustness, we can develop a time-invariant dummy of Islamic labels and utilize a fixed effect and dynamic panel data regression model.

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