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الحوكمة التقليدية والحوكمة الشرعية وتأثيرهما على الأداء: مقارنة بين الدول في منطقة الشرق الأوسط

CORPORATE GOVERNANCE, *SHARIA'AH* GOVERNANCE AND PERFORMANCE: A CROSS-COUNTRY COMPARISON IN THE MENA REGION[1]

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الملخص

لا يزال أداء وفعالية مبادئ الحوكمة مصدر قلق للبنوك. تركز هذه الدراسة على الاختلافات في الحكومة بين البنوك التقليدية والإسلامية . كما تبحث هذه الدراسة العلاقة مابين الحوكمة وأداء البنوك التشغيلي والمالي والتسوقي. تضمنت هذه الدراسة عينة من 127 بنكًا مدرجًا في دول الشرق الأوسط وشمال إفريقيا لمدة عشر سنوات (2008-2017). بُني نماذج الدراسة على عدة متغيرات؛ المتغير المستقل هو مبادئ حوكمة الشركات، والمتغيرات التابعة هي العائد على الأصول؛ العائد على حقوق الملكية ومؤشر توبنز كيو. أيضًا، استخدمت الدراسة متغيرات ضابطة خاصة بالبنك والبلد للمساعدة في قياس العلاقة بين الحوكمة وأداء البنك. اوضحت النتائج المستخلصة من الاختبارات التطبيقية أن الحكومة الشرعية أثرت بشكل كبير على الأداء التشغيلي (العائد على الأصول) والأداء المالي (العائد على الملكية). أما الحوكمة التقليدية فقد أثرت على الأداء السوقي (مؤشر

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توبينز كيو). تقدم هذه الدراسة رؤى حول الاختلافات في العلاقة بين الحوكمة الشرعية وحوكمة الشركات وتحسين الأداء، والتي يمكن أن يستخدمها كلا البنكين لإعادة تبني ممارسات الحوكمة في تعزيز الأداء التشغيلي والمالي والسوقي.

Abstract

This study examines the relationship between corporate governance bank's operational (ROA), financial (ROE) and market performance (TQ) in both conventional and Islamic Banks. This study examines 127 banks listed on the MENA countries for ten years (2008-2017). The study independent variable is corporate governance principles, the dependent variables are return on assets (ROA); return on equity (ROE) and Tobin's q (TQ). Also, the study utilizes bank and country specific control variables to help measuring the relationship between governance and bank's Performance. The findings deduced from the empirical results demonstrate that *Sharia'ah* governance significantly influenced the ROA and ROE. However, the corporate governance significantly influenced the TQ. Furthermore, the results indicate that there are differences between *Sharia'ah* governance and corporate governance with regard to operational, financial and market performance. The study provides insights about the differences in the relationship between *Sharia'ah* governance, corporate governance, and the improvement of performance, which might be utilized by both banks to re-adopt the governance practices in enhancing the operational, financial and market performance.

الكلمات الدالة: الحوكمة التقليدية، الحوكمة الشرعية، الأداء، دول الشرق الأوسط

Keywords: Corporate governance, *Shari'ah* governance, MENA Countries.

1.0 Introduction

After the financial crisis in 2008, a suspicion on the functioning of traditional banks has increased, at the same time an increase on the attention on Islamic banks, as many bankers have observed stable bank's performance during the financial crisis (Hasan and Dridi, 2011). Islamic banks have a comparatively high demand in several emerging markets, such as Middle East and North Africa countries (MENA). However, few evidence exists on the functioning of Islamic banks.

Islamic Banks are featured by having a unique kind of governance where the nature of corporate governance does not suit to *Sharia'ah* compliance. Corporate governance of banks has become significant area that needs more attention at international level. The complicated governance followed by conventional banks minimize the ability of stakeholders to supervise their performance. Moreover, the corporate governance aims to solve the conflicts between shareholders and management. However, the *Sharia'ah* rules are dealing with all stakeholders in their activities rather than only shareholders. Therefore, Islamic governance aims to solve the conflicts between all stakeholders through following *Sharia'ah* rules guided by religious board which is *Sharia'ah* supervisory Board (SSB), (Safieddine, 2009; Quttainah et al., 2013).

This issue made Islamic banks in need for a special kind of governance systems. (Becht et al., 2011). Islamic banks tend to have different systems with unique characteristics compared to conventional banks; *Sharia'ah* finance does not allow for the payment of interest (*riba*). At the same time, *Sharia'ah* finance relies on the idea of risk-sharing, on both the profit and loss. This would suggest clear differences in the nature of Islamic and conventional banks. Those differences may enable us to capture a relatively clear image of governance mechanisms in banks and their contribution in improving performance. However, theory does not make clear predictions whether the differences in governance practices in both bank's performance lead to different performance.

This paper contributes to a small but growing literature on *Sharia'ah* governance. While there are many studies on Islamic banking, there are few academic papers up to now on *Sharia'ah*

governance. With this paper we aim to contribute to the emerging countries with regards to the contribution of corporate governance and *Sharia'ah* governance to the bank performance. Moreover, to compare the differences between both banking governance. This comparison may add another dimension to the existing literature.

For this purpose, we use a sample of 127 Islamic and conventional banks listed in MENA region over the period 2008 to 2017 to assess whether there are significant differences between conventional and Islamic banks. Focusing on a sample of countries with both types of banks allows us to control for unobserved time-variant country-specific effects, thus a clearer identification of such differences than when comparing banks from different countries.

The study is divided into the following sections: First section being introduction, further part of this study is divided into five sections. Section 2 discusses literature review and developing hypotheses. Section 3 presents the design and research methodology. Section 4 shows the descriptive statistics. Section 5 presents empirical analysis results. Section 6 presents the study's conclusion, recommendations and scope for further research.

2.0 literature Review and Hypothesis Development

2.1 Theoretical Framework

Corporate governance has been viewed through different theories namely: agency theory (Bosse et al., 2016), stakeholder theory (Moriarty, 2016), legitimacy theory (Frynas & Stephens, 2015) and resource dependency theory (Zona et al.,2015). However, the Islamic governance is widely based on the social contract theory (Khalid et al., 2018) and stakeholder theory (Bukair & Abdul Rahman, 2015).

Based on the agency theory, the objective of corporate governance practices is to minimize the conflict of interests between the management and the shareholders to create and improve shareholders' wealth (Farrar, 2008). Agency problem can be explained as the agents working in their best welfare of the principal which resulting in agency costs such as observing the cost to prevent losses. Deegan & Unerman (2006) clarify the agency cost as the "sum of monitoring costs by the principal to limit a typical activities of the

agent; bonding costs by the agent which will assure that certain activities of the agent will not harm the principal or to ensure the principal is recovered if such actions exist; and the outstanding loss which is the dollar equivalent to the decrease of welfare as a result of the separation among the agents decisions and those decisions that would increase the welfare of the principal". On one hand, agency problem depends on the ownership variables in each country, on other hand it gives the individuals full rights to add information and the investors have to understand whether or not governance mechanisms align to their priorities (Clarke, 2004). To eliminate the agency problem, the investors and management could be agreeing to the theories, as well as efficient markets are considered to be the solution for corporate information, management labour and corporate control". Thus, corporate governance focused on the separation of ownership and control which leads in principal-agent problems arising from the scattered ownership in the corporations.

Many researchers discussed the stakeholder theory in relation to the responsibility of the firms to the community. Brown and Caylor (2006) defined stakeholder as "a group of individuals who can affect or affected by the activities of the corporation, in order to achieve the objectives of the corporation". The basic goal of any corporation is to resolve the conflicts of interest of the stakeholders. So, realizing the responsibility of the stakeholders among the corporation is the main aspect of clarifying this theory. This means, if the risk of investment is related to the corporation activities the stakeholders is recognized (Lara, et al., 2009). Thus, the stakeholders must be treated fairly by the firms, and directors should manage the firm for the benefit of all stakeholders, regardless of whether the stakeholder management leads to better financial performance.

Legitimacy theory could be defined as "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate with some socially constructed systems of norms, values, beliefs and definitions". Legitimacy theory have social participation with the society and the corporations. Deegan & Unerman (2006) indicates that an organization gets permission for society operating and the society offers the authorization to get and use natural and human resources. Thus, governance must consider the rights of the public not

only the rights of the shareholders. Clarke (2004) explained the resource dependency theory and stated that directors are responsible to get resources to the corporation such as information, skills and competences, community, public decision makers, suppliers, buyers, social groups and legislations in order to reduce the uncertainty in the corporation. Thus, corporate governance supports the process of appointing the directors to multiple boards.

The social contract theory considers the social responsibility as a contractual obligation the corporation owes to community and society (Donaldson, 1983). Donaldson and Dunfee (1999) defined social contract theory as a way for directors and managers make ethical decision making, and they were referred to the communities and their expectation from the business to support the local community. Deegan & Unerman (2006) found a strong relationship between the society and society members through social contracts. Also, Clarke (2004) states that macro and micro social contracts should be included in order to manage and assist businesses in the decision-making process. Thus, corporate governance considers society as a combination of members of society and society itself.

2.2 Empirical Studies

2.2.1 Governance and Operational Performance

Al-Ghamdi and Rhodes, (2015) found that governance practices in Saudi firms has no relationship with operational performance (ROA). In contra, Ahmed and Hamdan, (2015) found that corporate governance is significantly correlated with firm performance in Bahrain. While Khamis, et al., (2015) found that there is a significant relationship between governance and return of assets (ROA) in Bahraini listed companies, Fallatah and Dickins (2012) investigates the relationship between corporate governance and firm performance in Saudi-listed companies and found that corporate governance and firm's performance (measured as return on assets) are unrelated. In Sri Lanka, Guo and Kga (2012) found that size of board is negatively associated with the operational performance. However, In Malaysia, Fooladi (2011) found that corporate governance negatively associated with ROA. Another Study in China adopted by Sami et al, (2011)

found a positive relation between corporate governance and operational performance. Mohammed (2012) explores the effect of corporate governance on Nigerian bank's operational performance. He found that corporate governance is associated significantly with return on assets.

2.2.2 Governance and Financial Performance

Ahmed and Hamdan, (2015) studied the impact of corporate governance on firm's financial performance in Bahrain listed companies. The results indicate that corporate governance is significantly correlated with return on equity (ROE). Afrifa and Tauringana (2015) provided evidence of the impact of corporate governance on the SME's financial performance. The results show that board size has a negative impact on the ROE. In contra, Najjar (2012) found that the board size has positive significant impact on insurance firm's performance. Al-Haddad et al. (2011) found that corporate governance is significantly added a value to the Jordanian firm. However, Gupta and Sharma (2014) found that corporate governance has limited impact on South Korean and Indian firm's financial performance.

2.2.3 Governance and Market Performance

Fallatah and Dickins (2012) found that corporate governance is positively related to market performance (Tobin's Q) in Saudi firms. Moreover, Siddiqui (2014) found that the value of the firm's performance measured by Tobin's Q is significant. Furthermore, Al-Ghamdi, and Rhodes, (2015) found that ownership structure has a significant positive relationship with Tobin's Q. However, Al-Matari, et al, (2012) found that corporate governance is not significant to market performance.

2.2.4 Governance in Islamic Banks

There is limited but growing literature on *Sharia'ah* governance. Hassan (2011) studied the *Sharia'ah* governance in different countries. He found that there are significant differences across the countries, which indicated that there are weaknesses to the

existing international *Sharia'ah* governance requires more attention and improvement. Garas (2012) studied the conflicts of interest between the *Sharia'ah* board and board of directors. He concludes that the conflict of interest in the sharia'ah board is significantly affected by the executive members. Quttainah (2011) found that *Sharia'ah* governance are important determinants of the earning management. Grassa et al. (2010) investigated the effect of the *Sharia'ah* governance on financial performance. They found that there is no significant relationship between financial performance and sharia'ah governance.

However, there is no attempt made to answer "Is there a significant difference between Islamic conventional banks in the Middle East with regard to governance practices? Therefore, this study aims empirically to determine whether the governance practices affects the bank's performance in Islamic and conventional banks. Hence, the hypothesis is developed as follows:

H1: There is significant difference between the Sharia'ah governance and corporate governance with regard to performance.
H_{1a}: There is significant difference between the Sharia'ah governance and corporate governance with regard to operational performance.
H_{1b}: There is significant difference between the Sharia'ah governance and corporate governance with regard to financial performance.
H_{1c}: There is significant difference between the Sharia'ah governance and corporate governance with regard to market performance.

3.0 Research Methodology and Descriptive

3.1 Study population, sample and resources of data

The study sample consist of banks listed on the Middle East and North Africa (MENA) countries' stock exchange during the period from 2008–2017. The sample was selected on the basis of the following main conditions; availability of all necessary data; never been merged or delisted through the study period and their shares must have been publicly traded. This selection approach resulted in a sample of 127 listed banks out of 1270 observations. (See Table 2).

Table (2) Sample Selection

	No. of Banks			No. of Observations		
Country	**Islamic**	**Conv.**	**Total**	**Islamic**	**Conv.**	**Total**
Bahrain	5	2	7	50	20	70
Egypt	13	2	15	130	20	150
Jordan	7	1	8	70	10	80
Kuwait	4	5	9	40	50	90
Lebanon	3	0	3	30	0	30
Oman	2	6	8	20	60	80
Qatar	4	5	9	40	50	90
Saudi Arabia	4	8	12	40	80	120
Sudan	7	4	11	70	40	110
Syria	6	1	7	60	10	70
Tunisia	10	0	10	100	0	100
Turkey	12	2	14	120	20	140
U.A.E.	2	12	14	20	120	140
Total	79	48	**127**	790	480	**1270**

3.2 The Study Variables

The study independent variable is index of governance (corporate governance and *Sharia'ah* governance) which is calculated based on the average of four dummy variables namely, ownership of largest shareholders, size of board of directors, independency of board of directors and duality of chairman and CEO (see table 5). These principles followed by many prior studies (Buallay et al., 2017; Hamdan et al., 2017; Barros et al., 2013 and Bouaziz, 2014). The study also used Bank's performance measured using return on assets (ROA), return on equity (ROE) and Tobin's q (TQ) as dependent variables (Buallay, 2017). Finally, two type of control variables utilized in this study; country specific variables: gross domestic product (GDP) and

public governance (GOV). In addition to bank specific control variables: bank age (AG) and bank size (TA).

3.3 Study Model

$$Perf_{it}g = \beta_0 + \beta_1 Gindex_{it}g + \beta_2 PG_{itg} + \beta_3 GDP_{it}g + \beta_4 TA_{itg} + \beta_5 AG_{it}g + \varepsilon_{itg}$$

In order to measure the relationship between governance and bank's performance; the study estimates the linear Model as follows, where: *Perf.* is a continuous variable; the dependent variable, the banks' performance measured by three models (ROA model, ROE model and Tobin's Q model). ROA is the ratio of net income divided by total assets of Bank (i), in the period (t), in the country (g). ROE is the ratio of net income divided by shareholder's equity of Bank (i), in the period (t), in the country (g). Tobin's Q is the ratio of current liabilities plus market value of share capital divided by total assets of Bank (i), in the period (t), in the country (g). β0: is the constant and β1-5: is the slope of the independent and control variables. Gindex: is a continuous variable; the independent variable is a level of corporate/*Sharia'ah* governance principles of Bank (i), in the period (t), in the country (g). PG: is a continuous variable, the country specific control variable, is the public governance level of the country, for the bank (i), in the period (t), in the country (g). GDP: is a continuous variable, the country specific control variable, is the Ln of gross domestic product of the country, for the bank (i) in the period (t), in the country (g). TA: is a continuous variable, the bank specific control variable, the LN of total assets of Bank (i), in the period (t), in the country (g). AG: is a continuous variable, the bank specific control variable, the number of years since the Bank was established of Bank (i), in the period (t), in the country (g). ε: random error.

3.4 Model Validity

General Linear Model (GLM) was used to test the relationship between governance and performance. We, therefore, run several tests to check whether data of this study could meet the conditions of the linearity assumptions. As presented in Table 3, to secure approximation of data to normal distribution, Shapiro–Wilk parametric test were used. The null-hypothesis of these tests is that the

population is normally distributed. Thus, if the p-value is less than the chosen 0.05 then the null hypothesis is rejected and there is evidence that the data are not normal. As is shown Table 3, we noticed that the value for all variables was more than 0.05. This ascertains that the study data are normally distributed. However, empirical research that uses time series, like the case of this study, presupposes stability of these series. Autocorrelation might occur in the model because time series on which this study is based on non-stationary (Gujarati, 2003). To check stationarity of time series, Unit Root test, which includes the parametric Augmented Dicky-Fuller test (ADF) was used. As is presented in Table 3, we can notice that the (ADF) test is statistically significant at the level of 1% which meant that the data of time series (2008-2017) was stationary.

As for the strength of the Linear Model, basically depends on the hypothesis that every variable from the independent ones is by itself independent. If this condition is not realized, the Linear Model will then be inapplicable. It can never be considered good for parameters' evaluation. To actualize this, Collinearity Diagnostics Standard used incessant Tolerance quotient for every variable of the independent ones. Variance Inflation Factor (VIF) has to be found afterwards. This test is the standard that measures the effect of independent variables. Gujarati, (2003) stated that getting a (VIF) higher than (10) indicates that there is a Multicollinearity problem for the independent variable of concern. As presented in Table 3, it can be noticed that the (VIF) values for all independent variables is less than (10) which means that we do not have any collinearity problems in the study models. To test the Autocorrelation problem in the study models, we used Durbin Watson (D-W) test. Table 3 shows that the (D-W) values of the Models are within the (1.5-2.5) range. This indicates there is no autocorrelation in this model.

Finally, one of the significant assumptions of the regression models is the presence of Heteroscedasticity. Its mean should be equal to zero. If the Heteroscedasticity is present in the model, then some statistical methods will be used to overcome this problem. As is shown in Table 3, we use (Breusch-Pagan test) to test the Heteroscedasticity. The p-value of the three models are more than (0.05) which indicates

admitting the null hypothesis; these models not suffers from actual Heteroscedasticity.

4.0 Descriptive Analysis

4.1 Variables Description

In this section, we used the descriptive statistics for parametric variables and frequency for non-parametric variables in order to describe the study variables. Thus, we first show the difference between the variables in Islamic and conventional banks (See table 4). Then, we calculate the corporate governance index and *Sharia'ah* governance index (see table 5). On the country level, we adopt cross-countries analysis to show the variation across countries (see table 6). Finally, we adopt advanced analysis to show more advances descriptive results (see table 7 and 8).

Table (3) Model Validity

Variables	Labels	Measurements	Normality	Collinearity	Stationarity	Autocorrelation	Heteroscedasticity
			Shapiro-Wilk	VIF test	ADF	Durbin Watson test	Breusch-Pagan test
Dependent variables							
Operational performance	ROA	Net income divided by total assets.	0.221	-3.995		1.661	0.106
Financial performance	ROE	Net income divided by shareholder's equity.	0.195	-3.018		2.154	0.117
Market performance	TQ	The (Market value of equity + Book value of short-term liabilities) ÷ Book value of total assets.	0.102	-5.000		1.843	0.151
Independent variable							
Governance Index	Gindex	Governance Level (See Table 5)	0.133	-3.440	3.661***		
Control variables							
Country Specific							
Public Governance	PG	Governance Effectiveness level in the country	0.630	-2.113	2.118***		
Gross Domestic Product	GDP	The Ln of Total consumer, investment and government spending, plus the value of exports, minus the value of imports	0.196	-5.848	2.665***		
Bank Specific							
Bank Size	TA	The Ln of total assets of the Bank	0.178	-2.301	3.278***		
Bank Age	AG	The number of years since the company was established	0.491	-4.992	4.009***		

Significance at: *10%, **5% and * 1 levels.**

Table (4) Variables Description

Variables	Label	Mean		Difference t-test (p-value)	Standard deviation	Maximum	Minimum
		Islamic Banks	Conventional Banks				
Independent Variable							
Governance index *	**Gindex**	83.33	87.60	0.000	0.363	92.22	64.81
Dependent Variable							
Operational performance	**ROA**	6.11	4.03	0.030	5.114	12.66	-1.22
Financial performance	**ROE**	10.30	8.88	0.011	8.046	24.36	0.00
Market performance	**TQ**	1.65	2.25	0.048	1.361	3.22	0.86
Control Variable							
Bank Specific							
Bank Size	**TA**	16.90	20.66	0.225	0.110	40.15	12.01
Bank Age	**AG**	8.60	25.10	0.008	0.021	42.00	7.00
Country Specific							
Public Governance	**PG**	66.33	64.91	0.125	2.073	82.00	58.22
Gross Domestic Product	**GDP**	12.60	12.11	0.001	1.001	15.70	6.33

*** Table (5) shows the calculation of governance index**

The descriptive analysis of dependent variables (bank's performance) shows that the mean of ROA and ROE are greater in Islamic banks, however, the mean value of market performance is higher in conventional banks. These differences are significant in the three performance indicators as the p-value of the difference t-test is less than 5% (0.030, 0.011 and 0.048). However, the financial performance has the most significant difference between Islamic and conventional banks. Moreover, the high standard deviation of ROE indicates significant variations of equity comparing to income among banks.

The independent variables show that conventional banks are slightly better than conventional banks in governance practices adoption. However, this difference is significant as the p-value of the difference t-test is less than 5% (0.000). More details in Table (5) show the frequency for the governance principles in Islamic and conventional banks; the results show that 91% of conventional banks and 86% of Islamic banks in Mena countries their largest shareholders are not own more than 20% of a bank's outstanding shares. This means that the largest stakeholders don't have the voting power in the Mena region bank's which not significantly influences the strategic direction as well as the business operations of the banks. Also, this indicates that Mena banks are not controlled by certain shareholders.

One of the important governance practices is having the board of directors between seven to thirteen members. As more the members involved, the harder it becomes to take decisions. As shown in Table 5, the frequency percentage for the size of board members in conventional banks (93%) is widely better than Islamic banks (60%). Moreover, the size of board of directors in Islamic banks has the lowest principle compared with other principles. Which means that sharia'ah governance does not adopt strictly the size of board of director's principle.

The third principle suggests that more than 50% of total directors must be appointed as independent directors. The most important element for effective board is to have a majority of board outsider's involvement. Having a percentage of 88 % of observations in Islamic banks with more than 50% independent shareholders abroad is positively affects the performance and could be a possible reason for

eliminating the conflict of interest. However, only 67% of the conventional banks in Mena region their independent boards more than 50%.

Finally, the duality takes place when the chairman of the board and CEO roles are combined; the chairman of the board is responsible for managing the board. However, the CEO is responsible for day-today management of the firm, including the enforcement of board decisions. Therefore, banks that have duality may have a powerful individual who has the ability to make decisions that may not maximize shareholders' wealth. (Abbadi et al, 2016). As shown in table (5) Islamic and conventional banks separating the roles of chairman and the CEO, as they have very high percentage (99% and 98%). The Chairman holds the most critical decisions and had the power to influence the boards; therefore, the separation between CEO and chairman can lead to an effective board (Bouaziz, 2014). Khiari, (2013) argued that merge between CEO and chairman role could lead to conflict of interests and hence worst performance.

Table (5) Frequency of Governance (G Index)

Corporate Governance Principles	**Frequency'1**	**Frequency'0**
Ownership of largest shareholder	91.4	8.6
Size of board of directors	93	7
Independency of board of directors	67.6	32.4
Duality of chairman and CEO	98.4	1.6
CG Index	***87.6***	***12.4***
***Sharia'ah* Governance Principles**	**Frequency'1**	**Frequency'0**
Ownership of largest shareholder	86.22	13.78
Size of board of directors	60.01	39.99
Independency of board of directors	88.12	11.88
Duality of chairman and CEO	99	1
SG Index	***83.33***	***16.67***
G Index	**85.465**	**14.535**

4.2 Cross-Countries Analysis

While the results provided in Table 4 and 5 suggested evidence of differences between governance in Islamic and conventional banks, there might be important cross-country differences which we study in this section. We used regression model in order to compare the *Sharia'ah* governance, the corporate governance index and the performance between Mena countries.

As shown in Table (6), the *Sharia'ah* governance is negatively affect the operational performance (ROA) of Islamic banks in Egypt, Jordan, Oman, Sudan, Tunisia and Turkey. However, in Kuwait it was found positively affect the ROA of Islamic banks. Furthermore, the corporate governance found positively associated with conventional banks in Lebanon and Tunisia.

For the financial performance, the *Sharia'ah* governance is positively affected the ROE of Islamic banks in Bahrain, Oman, Saudi Arabia and Tunisia. However, in Syria it was found negatively affect the ROE of Islamic banks. Furthermore, while the corporate governance is positively associated with conventional banks in Kuwait and Emirates, it's negatively associated with conventional banks in Syria and Tunisia.

Lastly, the market performance is positively affected by the *Sharia'ah* governance of Islamic banks and corporate governance of conventional banks in Bahrain, Kuwait and Syria. However, in Egypt, Jordan and Tunisia the relationship between *Sharia'ah* governance and TQ is negative.

Table (6) Cross- Country Analysis

Country	ROA		ROE		TQ	
	SG	CG	SG	CG	SG	CG
Bahrain	1.400	0.120	11.570***	10.860*	1.022***	0.472**
Egypt	-9.516***	-0.069	-0.858	-0.083	-0.757***	-0.340**
Jordan	-10.120***	-1.075	-2.523	-2.488	-1.083***	-5.944**
Kuwait	33.010***	-4.773*	4.450	35.630**	1.401**	1.420
Lebanon	0.080	47.20***	6.310	22.030	2.206***	25.86**
Oman	-33.540**	1.440	22.520**	7.960	-0.447	-3.296
Qatar	-6.732	-0.846	-1.515	-0.047	-0.0313	-0.431
Saudi Arabia	-15.750*	0.410	11.560***	7.810	0.270	-1.074
Sudan	-13.840**	-1.850	2.610	11.600	0.300	0.860
Syria	-1.748	-0.482	-31.630**	-0.390***	9.582***	64.43***
Tunisia	-5.879***	2.962***	8.676***	-17.440**	-1.075***	-8.321**
Turkey	-18.390****	0.420	-1.397	-4.054	-0.606*	0.310
United Arabia Emirates	2.000	-0.667	0.880	24.390**	0.380	0.640

The t-statistic is based on parametric test Two-Independent Sample t test, The difference Significance at: *10%; **5% and ***1% levels.

5.0 Empirical Analysis

Our study can only assume a correlation between error and independent variables of the study sample. "Hausman Test" confirmed this where a null hypothesis assumes that capabilities of fixed-effect approach (FE) and random-effects approach (RE) are same, but if a null hypothesis is accepted then this indicates that random-effect approach is appropriate, and it is therefore preferable to use Random-effect approach. As shown in tables (7), Hausman "chi-squared" is statistically significant as p-value less than 5%, which mean that capabilities of Fixed-effect model (FE) is best representing the relationship, confirming our assumption that ε_i and X's are correlated.

The results reveal that ROA, ROE and Tobin's q regression models have high statistical significance and high explanatory power as P-value of F-test is less than 5% in Islamic banks (0.000, 0.001 and 0.002) and in conventional banks (0.002, 0.002 and 0.003).

5.1 Islamic Banks Results

As shown in Table 7, the results specify that the *Sharia'ah* governance significantly influenced the operational (ROA) and financial performance (ROE) which is significant at 5% (0.000 and 0.005) However, the *Sharia'ah* governance influence the market performance (TQ) of Islamic banks at 10% significant level.

To clarify the results, Islamic Banks are depending on trust; hence, protecting reputation, trustiness and credibility is another performance objective for Islamic banks rather than achieving pure financial outcomes. Therefore, Islamic banks are expected not to violate moral hazard and suffer from agency problem due to *Sharia'ah* compliance.

Since Islamic Banks provide ethical/cooperative financial services to the community they are expected to have a subsequently higher degree of *Sharia'ah* governance. Further, we believed that Islamic banks are followed the *Sharia'ah* rules which is built on the trust to protect the stakeholders rather than only investors.

For the bank specific control variables, the bank size and bank age found positively affects the ROA and ROE as the p-value more than 5%. However, the bank size found negatively affect the market performance (TQ) of Islamic banks.

Finally, we tested the country specific control variables; we found that gross domestic product has positive significant effect on the ROA and ROE. However, the public governance has positive significant impact on only the market performance (TQ).

5.2 Conventional Banks Results

As shown in Table 7, the results specify that the corporate governance significantly influenced the market performance (TQ) which is significant at 5% (0.000). Moreover, the corporate governance has positive effects on the financial performance (ROE). However, it's significant at 10% level.

For the bank specific control variables, the bank size and bank age found positively affects the ROA and TQ as the p-value more than 5%. However, the bank size found negatively affect the financial performance (ROE) of conventional banks.

Finally, we tested the country specific control variables; we found that gross domestic product has positive significant effect on the ROA and TQ. However, the public governance has positive significant impact on only the financial performance (ROE).

Table (7) Fixed Effect Regression Model

Variables		ROA Model						ROE Model						Tobin's Q Model			
		Islamic Banks		Conv. Banks		Islamic Banks		Conv. Banks		Islamic Banks		Conv. Banks					
	Label	β	t-Statistic (p-value)	β	t-Statistic (p-value)	β	t-Statistic (p-value)	β	t-Statistic (p-value)	β	t-Statistic (p-value)	β	t-Statistic (p-value)				
Independent variables	Gindex																
Governance Index		0.125	3.154*** (0.000)	0.001	0.395 (0.693)	0.208	2.743*** (0.005)	0.004	1.680* (0.093)	0.123	1.894* (0.061)	0.523	4.804*** (0.000)				
Control Variables:																	
Bank Specific																	
Bank Size	TA	0.009	2.040** (0.042)	0.018	3.560*** (0.000)	0.019	3.623*** (0.000)	-0.406	-19.990*** (0.000)	-0.405	-19.781*** (0.000)	0.010	2.088** (0.040)				
Bank Age	AG	0.001	2.106** (0.035)	0.003	5.222*** (0.000)	0.003	5.081*** (0.000)	0.005	1.730* (0.090)	0.004	1.680* (0.093)	0.002	2.114** (0.033)				
Country Specific																	
Public Governance	PG	-0.001	-0.070 (0.944)	0.039	2.001* (0.055)	0.038	1.931* (0.054)	0.166	2.250** (0.028)	0.171	2.244** (0.025)	-0.002	-0.060 (0.900)				
Gross Domestic Product	GDP	0.235	2.718** (0.011)	0.300	2.200** (0.023)	0.297	2.118** (0.022)	0.050	1.822* (0.065)	0.052	1.894* (0.061)	0.230	2.690** (0.015)				
R2		0.323		0.299		0.225		0.218		0.198		0.184					
Adj. R2		0.331		0.312		0.246		0.222		0.201		0.193					
F-Statistic		16.941		15.644		13.215		12.860		12.990		12.045					
p-value		0.000		0.000		0.001		0.002		0.002		0.003					
Hausman Test (Chi2)		18.470		22.169		34.115		16.007		22.222		28.115					
p-value (Chi2)		0.030		0.001		0.000		0.040		0.001		0.000					

Significant level at: *10%; **5% and ***1%

5.3 Hypothesis Results

Based on the results found in Table (7), we summarized the results in Table (8). As shown in the table, there are differences between *Sharia'ah* governance and corporate governance with regard to operational (ROA), financial (ROE) and market (TQ) performance. Therefore, H_{1a} and H_{1b} and H_{1c} are accepted.

Although findings of this research clearly discussed the differences between *Sharia'ah* governance and corporate governance in enhancing Mena banks' profitability, the results of this study give us a crucial signal as a wake-up call for Islamic Banks manager to startto explore and examine for the reasons of imperfect relationship between the *Sharia'ah* governance and the market performances (TQ). Moreover, in conventional banks the corporate governance is a driving factor behind investment decisions and stock valuation (TQ). However, the more governance adoption the less profitability in term of financial and operational.

Table (8) Hypothesis Results

Performance	**ROA**		**ROE**		**TQ**	
Governance	**SG**	**CG**	**SG**	**CG**	**SG**	**CG**
Significant level	positive @ 1%	not significant	positive @ 1%	positive @ 10%	positive @ 10%	positive @ 1%
Hypothesis Decision	Accept (there is difference)		Accept (there is difference)		Accept (there is difference)	

6.0 Conclusion, Recommendations and Future Research

This study considers the differences in governance level among Mena Islamic and conventional banks and investigates the relationship between *Sharia'ah* governance, corporate governance and bank's operational, financial and market performance. The data collected was a pooled data from Mena listed banks during the period 2008-2017.

The descriptive analysis results on one hand showed that there are slight differences between Islamic and conventional banks in adopting the governance practices. However, this difference is significant. On the other hand, *Sharia'ah* governance and corporate

governance with regards to performance are very different among the countries.

The regression findings showed that *Sharia'ah* governance significantly influenced the operational (ROA) and financial performance (ROE). However, the results specify that the corporate governance significantly influenced the market performance (TQ).

Furthermore, the results indicate that there are differences between *Sharia'ah* governance and corporate governance with regards to operational (ROA), financial (ROE) and market (TQ) performance.

We suggest that Islamic banks in MENA countries to focus more on the size of boards in *Sharia'ah* governance as this practice is low compared with other principles. One of the important governance practices is having the board of directors between seven to thirteen members; as more the members involved, the harder it becomes to take decisions.

Moreover, we suggest that conventional banks in MENA countries to focus more on the independency of boards in adopting corporate governance as this practice is not high compared with other principles. As the independent boards could be a possible reason for eliminating the conflict of interest.

Although the findings of this research clearly discussed the differences between *Sharia'ah* governance and corporate governance in enhancing Mena banks' profitability, the results of this study give us a crucial signal as a wake-up call for Islamic Banks manager to start to explore and examine for the reasons of imperfect relationship between the *Sharia'ah* governance and the market performances (TQ). Moreover, in conventional banks the corporate governance is a driving factor behind investment decisions and stock valuation (TQ). However, the more governance adoption the less profitability in term of financial and operational.

In Mena countries, the laws associated with *Shari'ah* and corporate governance is weak. Therefore, we recommend the bank's regulators to pay more attention to the law associated with corporate and *Sharia'ah* governance and they should have a clear and mandatory law associated with corporate and *Sharia'ah* governance to assure more transparency in and attract more investors.

Finally, we suggest that future research has to be taken in order to understand the differences between corporate and *Sharia'ah* governance with regards to other performance indicators such as, leverage, return on income and earnings per share. Moreover, taking other governance principles on consideration such as, gender diversity, compensation and audit committee.

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