



A Review on Agency Cost of Shariah Governance in Mutual Fund

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ABSTRACT

Mutual fund has become an increasingly important investment vehicle for retail investors, especially among households. Besides developing the institutional investment as an efficient momentum trader, the long-established separation of ownership and control in contemporary type of fund management has very much caused depreciation in shareholder value under minimum investor protection environment. The unobserved activities and widely magnitude decision skills of managers under imperfect contract with the tendency to serve self-interest exacerbates the shareholder wealth, predominantly in Shariah mutual fund, pertaining to dual investing interests. This paper reviews the theoretical and empirical literature with central attention given to the existing governance structure, Shariah governance in religious based fund, and some other related internal governance mechanisms. Concurrently, the review explains theoretically and conceptually the interrelationships among all relevant governance mechanisms. After some rigorous discussion and argument, this paper recommends further empirical investigation into this line of research to integrate the gap from developed market evidence.

Keywords: Mutual Fund, Corporate Governance, Shariah Governance, Shariah Advisory Panel, Agency Theory, Agency Cost

JEL Classifications: G11, G23, G31

1. INTRODUCTION

Mutual fund is one of the institutional investors with strong role in stimulating financial markets as profitable momentum trader contended by Grinblatt et al. (1995), Jones et al. (1997), Badrinath and Wahal (2002), and Basak and Pavlova (2013). Their transaction may have sizeable effects on asset prices following the excess and higher demand of risky assets. Consequently, it pushes price further up, generates price pressure on stock market, and also influences volatility. As Del Guercio (1996) mentions, the prudent stocks are preferred by mutual fund and bank, Falkenstein (1996) explains the characteristics of those such as high in liquidity, good flow of information, and volatility. More specific, Gompers and Metrick (2001) state clearly that institutional investors invest in larger stocks, more liquid in nature, and relatively low in returns during previous year, reflecting the rational and beneficial decision. Evidences from literatures have also shown more advantages for institutional investors to remain beneficial to its shareholders in the market. Each investment decision is carefully taken into

account to reflect a prudence transaction as indicated by Wermers (1999), Nofsinger and Sias (1999), and Wermers (2000), in which institutional investors are better informed than other investors and certainly good in predicting future returns. Huge sources coupled with greater incentives and research expertise make them leader in informational efficiency (Gompers and Metrick, 2001) towards controlling speculation and asymmetric information. Thus, the sustainable growth of this group of investor is fundamental to ensure sound and competitive financial market. Yet, mutual fund may also ignore shareholder rights and protection on the ground of good corporate governance practice. This can be justified since investors are bound with a nexus of contract (Jensen and Meckling, 1976; Jensen and Ruback, 1983) and relied heavily on professional investment services. In the meantime, a research has indicated that most investors in mutual fund are those middle and low income households (Crenshaw et al., 1997). As mutual fund plays the savings role function, these investors have over trusted the skills and informational advantage a professional manager should have and search for, thus, become passively carry out periodical assessment and evaluation of the fund. They

would rather count on managers and published annual report for certain degree of disclosure.

Despite the paralleled operation of Malaysian Islamic financial model to an established conventional system, each mutual fund is interrelated on the functional basic of operation. Both types of mutual fund siphon off inflows to Bursa Malaysia stock exchange and many other types of securities, impose fees, and superintended by a special governance structure best known as Board of Directors (BOD). However, the difference in principle embraced by conventional and Shariah law has restricted Shariah mutual fund (SMF) activities from engaging investment universally (Clarke, 2015). For instance, entertainment, alcohol, tobacco, and widely interest based activities are strictly forbidden industries for investing by Shariah law (Abbasi et al., 1989). This principle is subjected to the belief and value system exclusively stipulated in Shariah law (Abdul Ghafar and Achmad, 2010), which enforced a screening process (Derigs and Marzban, 2008) mainly on business activities, financial and non-financial criteria in order to meet the compliance. Investment selection is highly crucial to screen out business organizations that violate the law. Hence, unlike conventional fund, the investment portfolio held by SMF is relatively limited in choice. Sometimes, investment decision might change drastically subjected to Shariah Advisory Council circulation of decision by the Central Bank of Malaysia.

The huge different in investment practice from conventional fund leads to a critical function of Shariah Advisory Panel (SAP), many of which have been equally important to BOD with regard to the widespread function of monitoring and advising. More importantly, both governance structures are designed to safeguard the best interest of shareholders. While the latter is keen to conserve the shareholder welfare interest, the former examines and brings up compliance issue at the primary concern of some Muslim shareholders. The existence of such additional layer of governance (Abdul Ghafar and Achmad, 2010; Wan Amalina et al., 2013; Mollah and Zaman, 2015) implies a different set of interest shown by different group of shareholders. Catering the conventional shareholder interest fundamentally anticipates maximum outcome of notable financial return given the level of risk associated, but, preserving the Shariah interest means ensuring the compliance of investment activities at all time without violation against Shariah principle. Hence, the highest priority of shareholders in SMF is that return from their investment has complied permissibly with Shariah principle as verified by SAP over the quantifiable measure of conventional shareholder interest. Comparatively, conventional shareholders expect the maximum desired possible return from the belief of future performance as rational investors (Markowitz, 1952), even though uncertainty impounds the ultimate result, while shareholders in SMF may consider profit or loss return as secondary objective, as long as the top priority of investing value is ensured, though both objectives are equally desired.

The presence of SAP at the decision level of investment (Lewis, 2010) is likely to enhance the quality of investment activities in accordance to Shariah law most of the time, particularly the principle and value opted by shareholders. Such additional monitoring function is claimed by Wan Amalina et al. (2013) and

Mollah and Zaman (2015) to strengthen the governance structure in reviewing and supervising all related Shariah activities and promote good governance as well. As good corporate governance indispensable for a corporation such as fund management to meet and achieve the ultimate objective, the inherent quality of both governance structures through setting control, policies, and guidelines disclose the best practice of good governance to realize the desirable interest of stakeholders, predominantly shareholders. Both internal governance mechanisms are highly concerned primarily as effective devices to restraint agency cost, an internal cost stemmed from conflict of agency between principal and agent encompassing monitoring cost, bonding cost, and residual loss (Jensen and Meckling, 1976) against fund value foundation. Hence, SAP can be regarded as another internal governance mechanism to an equally essential interest of shareholders. Their special designation is proper to serve the dual interests of shareholders, who emphasize the Shariah principle compliance as equally important to fund value as the main investing objective. Consequently, additional numbers of decision makers may carry benefits to investors as more independent parties are located in the fund management to oversee vigilantly. Moreover, the Shariah compliance practice, validated by SAP regularly, has brought in Shariah governance framework (Lewis, 2010), which complements to the existing corporate governance. However, the use of both internal governance mechanisms is perplexed through its function and effectiveness towards aligning interest, reducing agency cost, thereby enhancing fund value. The argument trade-off between benefit against cost would have been raised in the model of SMF, where both governance structures are prevalent. This paper reviews the theoretical and empirical literatures to provide preliminary postulations among the simultaneous interrelations of internal governance mechanisms to deal with agency problem within fund management. Subsequently, it contributes toward enriching the literatures of internal governance mechanisms, predominantly rarely discussed Shariah governance on agency problem and the interrelations. The remainder of this paper proceeds with Section 2 elaborates the past literatures and theoretical ground, Section 3 briefly explains the methodology, Section 4 provides some findings and discussion, and finally Section 5 presents a conclusion followed by suggestion for future research.

2. LITERATURE REVIEW AND THEORETICAL BACKGROUND

The mounting concern of an additional layer of governance roles raises the conflict issue in investment decision and excessive control over monitoring mechanism since dual interests are shown by shareholders in SMF, in order to meet the compliance of Shariah principle. In a typical mutual fund contract, variety of fees is highlighted as the essential expenses borne by investors upon subscription. A huge portion of fee is management fees, incurred merely to compensate managers in running the investment daily activities. Any excessive fee by the need of another layer of governance could exacerbate the agency problem instead of functioning as salient nature of contract (Fricke, 2013). Besides, an emphasis dependency on control mechanism with regard to SAP as additional layer of governance would likely result in

higher additional cost of monitoring (Ghoul and Karam, 2007; Mollah and Zaman, 2015). Scholars, for instance, Dahlquist et al. (2000), Korkeamaki and Smythe Jr. (2004), Babalos et al. (2009), and Gil-Bazo and Ruiz-Verdú (2009) have advocated the negative relationship between fund fees and before-fee performance. Worse off, Mansor et al. (2015) have recently demonstrated new evidence on after-fee performance or net value to shareholders for SMF. Thus, unstructured immaterial fees for the purpose of describing additional necessary activities performed by SAP, insisted high price of mutual fund to affect a greater cost of agency and diminish fund net value to shareholders. Although there are optional governance mechanisms available to rely on, for instance, managerial and external institutional ownership that offer an incentive appliance in closely motivating managers and strengthening the alignment of shareholder interest, the possibility of adverse effect and optimal appliance would likely distract the effectiveness, especially when there is a greater dependence on another monitoring governance mechanism. According to Agrawal and Knoeber (1996), the use of single governance mechanism is difficult to interpret, but the interrelations among a set of control mechanisms may be spurious. Managerial ownership, the best alternative internal governance is demonstrated by Benston (1985), Ang et al. (2000), Singh and Davidson (2003), Fleming et al. (2005), Florackis (2008), McKnight and Weir (2009), Henry (2010), and Truong and Heaney (2013) to effectively reduce agency cost, while Morck et al. (1988), Hermalin and Weisbach (1988), McConnell and Servaes (1990), Holderness et al. (1999), Prevost et al. (2002), Mura (2007), and McConnell et al. (2008) conclusively provide evidence of positive non-linear relationship with corporation performance. Consequently, holdings of shares would also probably turn managers into an entrenched controlled shareholders (Morck et al., 1988) even in small and average level of stakes. It makes them completely powerful and arbitrarily in making decision with all sources and information under control. Apparently, there is a high possibility of opportunism activity by utilizing perquisites and giving priority to their personal interest at the expense of shareholders without their knowledge.

The underlying substitution hypothesis is clearly explained by Rediker and Seth (1995), that ownership in the form of managers and governance structure of monitoring are substitute in nature. Evidences to support the hypothesis are largely documented in the literatures of Barnhart and Rosenstein (1998), Vafeas and Theodorou (1998), Vafeas (1999), Mak and Li (2001), Booth et al. (2002), Prevost et al. (2002), Davies et al. (2005), Linck et al. (2008), and Li et al. (2015). This is especially true when SMF runs within high monitoring function of double layer governance. The likelihood of another mechanism, managerial ownership, to inherently be effective in practice is extremely low correspondingly. If heavy reliance on monitoring mechanism persists while shareholders are accountable for additional cost, agency cost seems to expand its presence when the alignment of interest between managers and shareholders is deviated. Following the argument of Hill and Snell (1988), Boyd (1994), and Fu and Wedge (2011), watchdog in the governance structure is inclined to merely ratify the management decision as simple rubber stamp, or even worse, puppets controlled by managers (Almazan and Suarez, 2003). Likewise, the function of additional governance

could be made symbolic, adhering to the regulators requirements and convincing retail investors to siphon off more inflows. In his model, Raheja (2005) indicates an optimal structure of board influenced by the trade off between maximizing incentives for insiders to reveal private information of corporation, minimizing coordination cost among independent directors on the board, and maximizing the ability of outsiders to resist all inferior investments. Moreover, he stresses that corporation whose the shareholders are better aligned with managers has small size of the board with significant ownership of managers. In the similar vein, Adams and Ferreira (2007) imply less inclination by managers to become friendly sharing information for better monitoring by the board. As a result, a larger size of double layer governance structure may be ineffective to extract private information and adversely affect the ultimate function to align shareholder interest and enhance fund value. Among others, Yermack (1996), Eisenberg et al. (1998), Callahan et al. (2003), Bebchuk and Cohen (2005), Cheng (2008), Adams et al. (2010), and Pathan and Faff (2013) argue on the large and staggered board to reflect a higher expense ratio, higher coordination cost, and eventually affect operating efficiency and fund value. Lack of informational advantage weakens monitoring groups and makes the desirable protection on shareholders almost impossible. In addition, the absence of incentive mechanism at the equilibrium between reward and punishment is most unlikely motivated managers to drive and align shareholder interest (Davis et al., 1997). At this point, ownership by managers is expected insignificant, thus, it would not likely eradicate agency problem unless large outside shareholders make its debut, because most of these shareholders are actively engaged in large scale monitoring to pressure the management. Decision on whether to accept an alliance lies at the discretion of managers. The acceptance of large funds comes not only with positive growth signal, but also with extra constraints relevant to major investment decision. On the other hand, abandoning such offer would be the best alternative choice to retain the control of managers while monitoring function continues to be passive, if only managers enjoy shirking and private benefit consumption.

Agency theory has been widely referred, deduced from an agency contract that forms a relationship between principal and agent to perform a certain task on behalf under a delegation of decision authority (Jensen and Meckling, 1976). Separation of ownership and control over capital in the nature of corporation is incorporated to the basis of conjecture (Berle and Means, 1932). More importantly, separation in the nature of decision system, comprised of decision management and decision control highlighted by Fama and Jensen (1983a) indicates a clear support of separation of residual risk bearing from this decision. In effect, the decision system leads to residual claims that are largely restricted from its maker. The primary essential assumption by Jensen and Meckling (1976) is the boundless and broadly divergence of interests dominated by many parties associated in the corporation. In addition of subsequent assumption, both principal and agent are utilities maximizers. Interest divergence between managers and shareholders has led to conflict of interest (Jensen and Meckling, 1976), causing excessive unrealized costs being imposed to investors for the purpose of monitoring, even in longer term, resulting in multiple losses. It also makes

value creation almost impossible without the optimal function of corporate governance (Liu, 2014). Consistent positive fund growth in contrary to negative fund value is prevalent to support such conviction. In the long run, the fact that investors allocate and entrust their capital specified in a contract of principal and agent could turn out to be a net loss valued investment following the separation of ownership and control if not being managed according to the priority owner interest.

The decreasing significant asset value depreciation might happen to understand that the growth is deteriorating with least fund inflows created. Most probably, the plausible central issue of this is how the management creates and adds value over the expenses incurred to investors through variety of fees. Dasgupta and Prat (2008), Guerrieri and Kondor (2012), Kaniel and Kondor (2012), and He and Krishnamurthy (2013) describe the poor performance that triggers outflows mainly due to contracting frictions among parties, poor managerial ability, and exogenous reason such as performance itself. These issues are remained controversial and gaining the interest following stringent governance reforms worldwide. Thus, the likelihood of principal losing the desired maximum interest is greater, exploited by agent personal interest as a result of goal conflict. Apart from that, dissimilarity attitudes toward risk between contracting parties contribute the magnitude of agency problem as argued further by Eisenhardt (1989), although risk sharing among parties in organization is substance to the survival. The principal allows for risk-taking activities, their natural view is opposed to an agent who plays as risk averse. She further supports the problem of interest divergence and adds another problem of difficulty and costly to verify the duties by an agent. Moreover, information asymmetry between principal and agent enriches the well-known free-rider problem leading to exacerbate the uncertainty outcome. Jensen and Meckling (1976) continue by characterizing a further agency conflict derived from perquisites of corporation resources for personal consumption. Interestingly elaborated in their work, the magnitude of agency cost varies among corporations depend on the taste of managers in exercising preferences as opposed to value maximization through decision making and cost associated to control. Due to an increasingly undiversified personal wealth portfolio, Wright et al. (1996) argue that such managers are inclined to make decisions based upon an evaluation of personal gains and losses that may result in the investment selection of non-value maximizing objective.

Indeed, agency theory has articulated the common issues perceived in an organization with assumptions on the ground of self-interest, risk attitude, information treatment, and outcome uncertainty (Eisenhardt, 1989). Identifying agency cost from such agency relationship is deemed indispensable to forecast the residual loss. Subsequently, agency theory elucidates many types of control mechanisms toward preventing managerial opportunism. It takes a principal to incur additional cost such as monitoring cost, certain appropriate incentives, and bonding cost to restrict the divergences of possible reduction in welfare experienced by them, which categorized as residual loss. The association of bonding and monitoring expenditures will be pursued ceaselessly as long as marginal benefit outweighs marginal cost. These costs

are unavoidably due to agency relationship, since it is impossible to have non-optimal, inefficient, and agency cost at zero (Jensen and Meckling, 1976). Therefore, monitoring cost will always be positive with regard to agency cost as long as agency relationship exists. Most managers are inclined to be a risk averse by implying diversification in fund management (Jensen and Meckling, 1976) that the cost to ensure an adequate level of diversification exercised is linked to agency.

As incentives to motivate managers decrease, similar attempts would likely follow to reduce the searching of high potential profitable portfolio. Such avoidance of personal cost would result in substantially lower value of the fund. There is ample evidence for Eisenhardt (1989) to suggest a richer information and more efficient monitoring device that could be played by the board. Its quality represented by corporate governance information and characteristics would enable a better alignment interest between principal and agent in cooperative economy. However, Cohn and Rajan (2013) suggest a passive minimal function by the board depended on potential for agency problem and the existence of external governance mechanism, even though managers are conscious about the consequences on reputation for being poor in managing portfolio. In presence, this group of directors, at least, reduces the severe impact of agency, if not fully eliminating it. Potential growth is always possible by strengthening the governance, as better governed corporation devotes better protection to shareholder rights and better performance (Klapper and Love, 2004; Beiner et al., 2006; John et al., 2008; Cremers et al., 2009). Moreover, the growth of fund could be made significantly appealing by consistently adding value and minimizing agency cost associated with effective internal governance mechanisms in house.

3. METHODOLOGY

To reach the consensus of the premise that Shariah governance is likely associated with agency cost, this study adopts a method of reviewing widely available literatures across corporate governance themes and control mechanisms. It encompasses numerous research and academic papers accessible conveniently from electronic databases, comprising of 27 papers selected for reviewing process as indicated by Table 1 that summarizes a list of papers retrieved. The result reveals some interrelations among a group of internal governance mechanisms including the characteristics of governance structure, Shariah governance, and the related expenses incurred. Most interrelations are derived from conventional model of corporate governance structure because shortfall in infrequent literature on Shariah governance. Having too many papers initially undergoing the process, these papers can only emphasize some of them that literally provide empirical evidence. Reviews illustrate a growing number of papers across many countries, using various specific selected governance variables, demonstrating diversity in methodology to generate robust result, with their respective contributions. Additionally, the interrelations presented are likely to relate with two main indicators of good interest alignment in a healthy agency relationship; agency cost and fund value.

Table 1: Review of selected studies on interrelations among a series of governance variables

Author (s) and year	Geographical sample	Interrelated variables
Baysinger and Butler (1985)	United States	Board structure and firm performance
Kesner and Dalton (1985)	United States	Board structure, succession, and firm performance
Hermalin and Weisbach (1991)	United States	Board structure and firm performance
Barnhart et al. (1994)	United States	Board structure and firm performance
Bathala and Rao (1995)	United States	Board structure, agency cost, and financial variables
Barnhart and Rosenstein (1998)	United States	Board structure and firm performance
Vafeas and Theodorou (1998)	United Kingdom	Board structure and firm performance
Prevost et al. (2002)	New Zealand	Board structure and firm performance
Wan and Ong (2005)	Singapore	Board structure and firm performance
Brown and Caylor (2009)	United States	Board structure and firm performance
Lehn et al. (2009)	United States	Board structure and firm performance
Pathan and Faff (2013)	United States	Board structure and firm performance
Eisenberg et al. (1998)	Finland	Board size and firm performance
Mak and Li (2001)	Singapore	Board size, board structure, and firm performance
Khorana et al. (2007)	United States	Board size and firm performance
Cheng (2008)	United States	Board size and firm performance
Drakos and Bekiris (2010)	Greece	Board size and firm performance
Pi and Timme (1993)	United States	Duality function and firm performance
Boyd (1995)	United States	Duality function and firm performance
Baliga et al. (1996)	United States	Duality function and firm performance
Iyengar and Zampelli (2009)	United States	Duality function and firm performance
Tufano and Sevick (1997)	United States	Board size, board structure, and expenses
Del Guercio et al. (2003)	United States	Board size, board structure, and expenses
Korkeamaki and Smythe Jr. (2004)	Finland	Expenses and firm performance
Gil-Bazo and Ruiz-verdú (2009)	United States	Expenses, corporate governance, and firm performance
Garas (2012)	Gulf countries	Shariah board and conflict of interest
Mollah and Zaman (2015)	25 most Islamic countries	Shariah board and firm performance

4. REVIEW ANALYSIS AND FINDINGS

The review process on all 27 research papers reveals some of governance variables used to have relationship with agency cost and firm performance. These variables include, but not limited to, board structure, board size, duality function, firm expenses, and Shariah board. It can be noted that the large majority of papers are conducted the study in advanced economy or developed countries with better protection on shareholders rights, while study on Shariah governance has long revolved around the Gulf and Islamic countries. Thus, it paves the way for future research to examine further in emerging market or developing countries with a weaker legal protection on shareholder. Although analysis and findings summarized in Table 2 are mixed, researchers have indicated unambiguous empirical evidence surroundings two governance variables; board size and fund expenses. Distinction in findings, however, is acceptable and most likely influenced by the sample used and methods applied. The usage of more complex statistical methods would contribute materially since governance variables are emerged, determined, and treated endogenously (Demsetz and Villalonga, 2001). Moreover, additional related issues such as reverse causality, unobserved heterogeneity, and simultaneity are highlighted by many scholars such as Wintoki et al. (2012) and Pathan and Faff (2013) appear to lead to spurious claims, predominantly on fund value rather than agency cost. Nevertheless, the improved methods and diverse evidences would very much likely guide the future research in developing empirical evidence on Shariah governance.

Apparently, it seems to suggest that board structure has most positive relationship, though weak, while some other researchers

have also suggested the absence of such relationship, to the extreme of negative association. More discoveries have led them to a curvilinear relationship. In double layer governance, board structure is composed with more independence fraction. Shariah governance is regarded as additional fraction of independence to original corporate governance; this issue is considerably at infant stage and has not received much attention, particularly on its scrutiny function. Changes in the board structure and other governance variables after taking into account the Shariah governance variables would likely change the effect or the existing relationship, holding all else constant. To date, there is only one article which studies on the relationship between Shariah governance and conflict of interest and another paper studies on the relationship between Shariah governance and firm performance. The result from both papers is overwhelming at odds to support as the ground on the postulation. Shariah governance is found to have a positive relationship with conflict of interest and in the meantime, effectively works as internal governance mechanism to improve firm performance on certain condition. As a result, this review may be able to develop an initial model incorporating the relationships at greatly limited evidence.

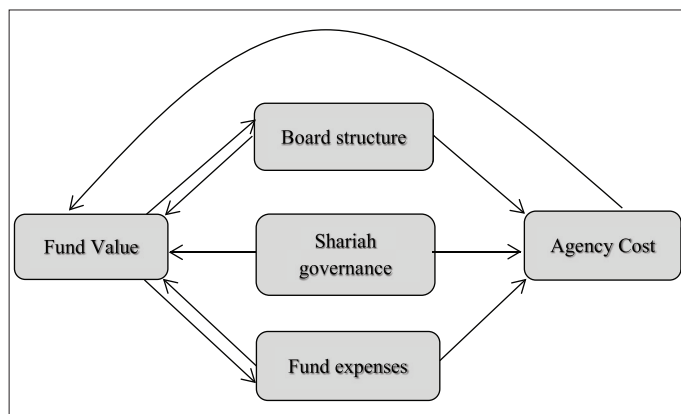
The causality of interrelations can also be explained by a framework as exhibited by Figure 1. Three main governance variables are board structure, Shariah governance, and fund expenses to relate with fund value and agency cost. The direction of relationship is exceptional circumstance when it deals with fund value. Two-way direction of relationship might prevail upon the issues of endogenous variables and reverse causality. However, agency cost is exempted from the issues captured. Note that, a governance mechanism may affect inversely on agency cost and

positively on fund value. Hence, a relationship between agency cost and fund value requires a validation to suggest truly effective mechanisms.

Shariah governance is positioned after board structure and before expenses to imply a crucial causality between cause and effect of both variables. Surprisingly, the interrelations between governance variables are also very likely in double layer governance. If Garas (2012) is right about his examination pertaining to conflict of interest enlarged by the appointment of SAP, its function is also beneficial because it may enhance the fund value if they perform supervisory rather than advisory role (Mollah and Zaman, 2015). Since Shariah governance component is fundamental within the

framework of Shariah financial securities, the mechanism should be ensured to contribute positively and effectively aligned with both primary and secondary interest of shareholders. Despite the less important attention paid by these shareholders on the return performance, Shariah governance should corroborate the governance framework and deliver good governance culture practice by always minimizing agency cost, if not maximizing fund value. At least, SMF purchased by shareholders is one among good investment assets that are adequately advantageous for personal diversification due to a lower risk taking activity. Since additional layer of governance is at infant stage with significant dispute on benefit against cost, further examination highlighting this issue would be valuable to extend the line of literature.

Figure 1: The interrelations framework between internal governance mechanisms



5. SUMMARY AND CONCLUSION

The main objective of this study is to review the theoretical and empirical literature to provide preliminary postulations among the simultaneous interrelations of internal governance mechanisms to deal with agency problem within religious based fund management. Internal governance mechanisms are especially regarded at the best capability to control the level of agency cost and maximize the fund value. In particular, this study focuses on the impact of all identified governance variables from board structure when SAP in presence to serve second interest demanded by shareholders on both agency cost and fund value. It is motivated by the ground that additional layer of governance may likely aggravate the existing monitoring function and expose shareholders to extra fees and cost.

Table 2: Review analysis and findings of selected studies

Author (s) and year	Method (s)	Interrelation findings
Baysinger and Butler (1985)	Zero-order correlation	(+) Positive relationship
Kesner and Dalton (1985)	Contingency analysis	Moderate relationship
Hermalin and Weisbach (1991)	Piecewise regression	No relationship
Barnhart et al. (1994)	Instrumental variable, 2SLS, and 3SLS	Curvilinear relationship
Bathala and Rao (1995)	OLS	(+) Positive relationship
Barnhart and Rosenstein (1998)	3SLS	Weak (+) positive relationship
Vafeas and Theodorou (1998)	OLS and 2SLS	No relationship
Prevost et al. (2002)	Simultaneous equation and 3SLS	(+) Positive relationship
Wan and Ong (2005)	HIREG and OLS	No relationship
Brown and Caylor (2009)	OLS and stepwise regression	Mixed relationship
Lehn et al. (2009)	2SLS	No relationship
Pathan and Faff (2013)	Two step system GMM	(-) Negative relationship
Eisenberg et al. (1998)	Simultaneous and Poisson estimation	(-) Negative relationship
Mak and Li (2001)	OLS and 2SLS	(-) Negative relationship
Khorana et al. (2007)	Multinomial logistic regression	No relationship
Cheng (2008)	OLS	(-) Negative relationship
Drakos and Bekiris (2010)	Simultaneous equation and 3SLS	(-) Negative relationship
Pi and Timme (1993)	Cost efficiency metric	(-) Negative relationship
Boyd (1995)	Simple correlation	(-) Negative relationship
Baliga et al. (1996)	Non-parametric test	Weak (+) positive relationship
Iyengar and Zampelli (2009)	Multivariate analysis	No relationship
Tufano and Sevick (1997)	Fixed effect, OLS, and pooled regression	(+) Positive relationship
Guercio et al. (2003)	Fixed effect and OLS	(+) Positive relationship
Korkeamaki and Smythe Jr. (2004)	Fixed effect, OLS, and random effect	(-) Negative relationship
Gil-Bazo and Ruiz-Verdú (2009)	Univariate and Pooled regression	(-) Negative relationship
Garas (2012)	OLS	(+) Positive relationship
Mollah and Zaman (2015)	Two step system GMM, GLS random effect, and 3SLS	(+) Positive for superviory and negative for advisory

GLS: Generalized least squares, GMM: Generalized method of moments, HIREG: Hierarchical regression, OLS: Ordinary least squares, 2SLS: Two stage least squares, 3SLS: Three stage least squares

The lack of related study on double layer governance has allowed the current study to discuss theoretically and conceptually. Findings from review analysis have identified a number of governance variables under board structure and some interrelations with other governance mechanisms leading to a direction of relationship. Although a major number of governance variables are unambiguous indicated the causality, distinguished proponents are also possible for consideration due to the different method adoption. Alternatively, all interrelations are explicitly depicted in the research framework grounded by the underlying agency theory. On top of discussing the review of literature from governance variables on agency cost and fund value, the inherent relationship between agency cost and fund value has been left undetermined with clear evidence.

This study has attempted on exploring conceptually the interrelations among governance variables and predicting agency cost associated with Shariah governance. It attempts to bridge the gap in related area of conflict of agency with the related underlying framework. It provides an avenue for future research to employ and estimate the model for new empirical evidence. Extension may examine the effectiveness, contribution, and effects of Shariah governance structure towards good governance, sustainability, and financial performance. The current findings from review are valuable to the policy makers and the fund management, especially those Shariah financial institutions to uphold the critical function of SAP while controlling agency cost at the minimum possible level. Ultimately, this study contributes to the literature of double layer Shariah governance model and agency problem entailed.

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